

**The role of actuaries in non-life insurance
business**

Society of Actuaries in Ireland

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Executive summary

Overview of actuarial involvement in the management of non-life insurance

- Actuaries are now widely employed in claims reserving, pricing, risk management and, indeed, in most areas of non-life insurance.
- Claims reserving is a key actuarial role in a non-life insurance undertaking. In addition to the application of statistical techniques, professional judgement is a crucial element in the actuarial reserving process and is fundamental to the statutory role of the actuary in signing the “Statement of Actuarial Opinion”. The experienced actuary needs to understand the limitations of any statistical or actuarial reserving method and must use his professional judgement in choosing and applying such methods.
- In most of the large non-life insurance undertakings in Ireland, actuaries have a significant involvement in pricing, either as technical advisors to underwriters and senior management, or as decision-makers in their own right.
- The primary area of actuarial involvement is in determining the expected claims cost. The pricing actuary uses statistical analysis of past claims experience, together with measures of exposures and related risk factors. The pricing process is most structured for personal lines business.
- In recent years, actuaries have become more closely involved with wider corporate risk management for non-life insurance undertakings. Particular areas of focus for actuaries include capital management, the business planning process, and operational risk assessment.

Present and future statutory role of actuaries in non-life insurance

- The current statutory role for the actuary in non-life insurance is limited to the provision of an annual Statement of Actuarial Opinion (SAO); this was first introduced in 2001. The SAO certifies that the reserves, gross and net of reinsurance, are greater than the actuary’s best estimate of the liabilities as at the reporting date.
- The actuary is not required to consider the interrelationship between the liabilities and the corresponding assets, the nature of the reinsurance programme or the overall solvency position. The SAO is a “point-in-time” opinion and the actuary is not required to monitor the position on an ongoing basis or to model the expected position at any future date.

- If IFSRA wished to extend the statutory role of the reporting actuary, this could potentially be done in the following ways:
 - 1) The SAO could be extended to include an opinion on the **overall solvency** of the company at the reporting date.
 - 2) This requirement could, over time, be extended to continuous monitoring of the solvency position throughout the year.
 - 3) The SAO could be supplemented by a periodic “**financial condition report**” - which would analyse the potential future development of the company’s solvency position.
- The Society considers that the prudential supervision of non-life insurance could be strengthened by extending the statutory role of actuaries. However, it believes that it would be necessary and appropriate to do so in a series of incremental steps, in the order outlined above.
- The current system of SAOs is of relatively recent origin and it would be desirable that it be given some further time to mature and consolidate, before any further extension of the statutory actuarial role. There could potentially be resourcing issues if further statutory requirements were introduced within a short timeframe.
- It would also be appropriate to consult with the industry and other stakeholders in relation to any extension of the statutory actuarial role.

1. Introduction

1.1 The purpose of this paper is two-fold:

- to provide a brief overview of actuarial involvement in the management of non-life insurance business.
- to consider the potential role for actuaries in the future regulation of non-life insurance in Ireland.

1.2 Sections 2, 3 and 4 consider the role of the actuary in reserving, pricing and corporate risk management respectively. Section 5 provides some background on the prudential supervision of non-life insurers internationally, while Section 6 considers the available options in relation to the philosophy of insurance regulation in Ireland. Finally, Section 7 considers the present and future statutory role of actuaries in non-life insurance.

1.3 By way of background, the remainder of this section sketches the history of actuarial involvement in non-life insurance in Ireland.

Background

1.4 Up to the early 1980s, actuaries were not employed in non-life insurance in Ireland. However, the adoption of the first Non-Life Insurance Directive¹ heralded a more systematic approach to non-life reserving and solvency. Along with many other influences, this led in time to steadily increasing actuarial involvement in non-life insurance. The collapse of PMPA in 1983 and of the Insurance Corporation of Ireland in 1985 focused attention on the supervision of non-life insurance and contributed to the development of a role for actuaries.

1.5 The relatively recent involvement of actuaries in non-life insurance is in marked contrast to the position in life assurance. From the beginning, life assurance was based on actuarial principles. One might ask why the actuarial profile has developed so differently. It is certainly not because of the relative inherent riskiness of the two categories of insurance.

1.6 Indeed, many classes of non-life insurance would be regarded as much riskier and more volatile than life assurance. The explanation is perhaps largely historical in that life assurance, due to its long term nature, was recognised from the beginning as being heavily reliant on statistical and financial mathematics, i.e. on actuarial/probability calculations. Non-life insurance, on the other hand, was largely seen as short-term business, which could be conducted on what might almost be characterised as an “ad hoc” basis.

¹ introduced in Ireland by the European Communities (Non-Life Insurance) Regulations 1976

- 1.7 Moreover, for a long time, the actuarial profession did not exhibit much interest in non-life insurance, so that appropriate actuarial techniques developed much later. In the case of short-tail classes of non-life insurance, there was a prevailing view that, if rates proved incorrect, this would quickly become apparent and could be corrected on renewal. Therefore, the financial consequences of a non-actuarial approach appeared limited. In fact, the fundamental actuarial skills of assessing risk, including financial risk, under conditions of uncertainty are eminently applicable to non-life insurance.
- 1.8 Today, sophisticated risk assessment using probability techniques, statistical experience analysis and the use of advanced statistical and financial projection methods are regarded as central to the conduct of non-life insurance business. Actuaries are now widely employed in claims reserving, pricing, risk management and, indeed, in most areas of non-life insurance.
- 1.9 There are currently 46 actuaries resident in Ireland and working in the non-life insurance, reinsurance and captive markets. Of these, 21 work in the direct domestic insurance market and 20 in the reinsurance/captive area; four are consultants and one is involved in regulation.

2. The role of the actuary in claims reserving

- 2.1 Claims reserving is a key actuarial role in a non-life insurance undertaking. This section describes the nature of the claims reserves required, the technical tools used to calculate the reserves and the role of professional actuarial judgement in the process.
- 2.2 It is important to note that the reserving actuary needs to work closely with various functional areas within the non-life insurance undertaking. Communication between the actuary and both the claims and legal functions is particularly important.

Nature of claims reserves

- 2.3 At any point in time, a non-life insurance undertaking will have outstanding liabilities in respect of claim events that have occurred but that have not yet been fully settled. These liabilities can be categorised as follows:
- Reported claims that have not yet been settled in full
 - Claim events that have occurred but have not yet been reported (IBNR or “incurred but not reported” claims)
 - Claims that the company has settled but which may re-emerge at a later date with a further claim
 - The expenses associated with handling and settling these claims.
- 2.4 The undertaking will also have liabilities for claims and expenses arising in the future in respect of unexpired cover under policies currently on the books.
- 2.5 The reserving process is based on (i) a range of statistical techniques and (ii) the judgement of the actuary:
- (i) Various statistical techniques are employed, based on historical data and trends, to estimate the claim amounts that the insurance undertaking will ultimately have to pay.
 - (ii) Having used a range of statistical methodologies, the actuary must use his professional judgement to select a best estimate for use in both the published accounts and statutory returns. This requires a combination of experience, understanding of the methodologies employed and knowledge of the underlying data and processes within the undertaking.

Technical analysis

- 2.6 For the purposes of technical analysis, the actuary uses historical claims payment data and current case estimate data (a case estimate is the estimated value of a claim based on current information. It is usually determined by a suitably experienced claims assessor but may, in some instances, be computer generated).

- 2.7 There are many different statistical methods that can be used for estimating outstanding reserves and each method will produce different results. The accuracy of a particular method depends on the extent to which the assumptions required by the method suit the circumstances of the available data.
- 2.8 The various methods are generally based on the assumption that there is a stable pattern to the way that claims have been settled in the past and that this pattern will continue into the future. The majority of statistical methods can be classified into five basic groups:
- Chain ladder methods
 - Average cost per claim methods
 - Loss ratio methods
 - Blends (a combination of methods)
 - Stochastic methods
- 2.9 New statistical methods are being researched on an ongoing basis. Various international actuarial organisations facilitate the discussion and development of new techniques.

Judgement

- 2.10 Judgement is a crucial element in the claims reserving process. It is needed to select the most appropriate statistical method and indeed to determine whether a statistical method should be used at all. The most appropriate method will vary depending on the characteristics of the claim cohort or class of business. Blind application of any statistical method can produce misleading results. The experienced actuary will understand the limitations of any particular method and will exercise judgement in its application.
- 2.11 Each method requires the use of a range of assumptions. Again, judgement is required to determine the most appropriate assumptions.
- 2.12 Professional judgement is fundamental to the statutory role of the actuary in signing a “Statement of Actuarial Opinion” (see section 7). The Statement of Actuarial Opinion signed by the reporting actuary states that, in his opinion, the reserves, gross and net of reinsurance, comply with the applicable legislation and are greater than his best estimate of the corresponding liabilities as at the reporting date.
- 2.13 There are various reasons for calculating claims reserves, ranging from determining the liabilities to be included in the published accounts to valuing the undertaking for purchase or sale. The purpose of the reserving exercise is a factor in determining the degree of prudence in the assumptions used.
- 2.14 The reserving actuary also provides vital support to other actuarial and management functions, including pricing, reinsurance and risk management.

3. The role of the actuary in pricing

3.1 In most of the large non-life insurance undertakings in Ireland, actuaries have a significant involvement in the pricing process, either as technical advisors to underwriters and senior management or as decision-makers in their own right.

3.2 There are two key components to the pricing process:

- (i) selection of the required return on capital
- (ii) development of a pricing basis to deliver the required return on capital.

Required return on capital

3.3 The required return on capital will depend on a number of factors including:

- Current state of the insurance cycle: at the top of the insurance cycle undertakings will be able to make a higher return on capital than at the bottom of the cycle.
- Appetite for growth: if the undertaking believes that it can retain business over a number of years, it may decide to write new business on terms that provide a lower return on capital in the initial year, in the expectation that the required rate of return on capital can be obtained over the lifetime of the policies concerned.
- Volatility of the class of business: a higher return on capital is generally required for the more volatile classes of business (assuming that the same level of capital is allocated to all classes of business), in the same way that venture capitalists require a higher return on more risky projects.

3.4 The allocation of capital to each line of business, and the required return on that capital, is essentially a decision that belongs to the account-owners i.e. the underwriters and the CEO, albeit that the actuary will generally have a significant input into the underlying analysis.

Development of a pricing basis

3.5 The pricing basis will seek to ensure that the premium for each policy covers the following items:

- Expected claims cost
- Expected claims handling expenses
- Other allocated expenses, including relevant reinsurance
- Any brokerage or intermediary fee payable
- Insurance levies and taxes, and
- A contribution to profit (i.e. a return on capital)

- 3.6 Items that may reduce the premium rate include:
- Investment income
 - Salvage and subrogation received, and
 - Any reinsurance recoveries received.
- 3.7 The primary area of actuarial involvement is in determining the expected claims cost. The pricing actuary uses statistical analysis of past claims experience, together with measures of exposures and related risk factors. He also obtains input from reserving actuaries and other insurance professionals with regard to claims trends, in order to ensure that emerging sources of claims are taken into account.
- 3.8 The pricing process is most structured for personal lines business, which is generally book-rated (i.e. there is no discretion in the rate charged at point of sale for a given level of cover).
- 3.9 For private motor insurance business, for example, the pricing actuary generally attempts to calculate premium rates that will deliver the same rate of return on capital for all market segments (although some undertakings may demand a higher rate of return from the more volatile segments). However, given the number of rating factors that may be used, the level of statistical confidence that insurers will have in their premium rates for particular market segments is always significantly less than 100%. This uncertainty about the true price for particular risks explains much of the difference in the rates charged by different insurers.
- 3.10 For commercial business, the number of rating factors used is often much smaller. Whilst actuaries derive recommended book rates based on the relevant rating factors, in practice, commercial underwriters assess the quality of each risk using information that is less amenable to statistical analysis, for example, information about the policyholder's risk management processes. The larger the proposed risk, the more underwriting judgement that is used in the pricing process.
- 3.11 For particularly large policies, the actuary is often involved in the calculation of an experience-weighted quotation, based on a weighted average of a book rate and a rate based on actual past claims experience. The larger the proposed risk, the more weight that is given to the actual claims experience.

4. The role of the actuary in corporate risk management

4.1 In recent years, actuaries have become more closely involved with the wider financial and corporate governance of non-life insurance undertakings. Particular areas of focus for actuaries include:

- capital management
- the business planning process, and
- operational risk assessment.

Capital management

4.2 Capital management for a non-life insurance undertaking is highly amenable to statistical and actuarial treatment. Capital absorbs all the residual risks to which the company is exposed. In addition to the usual credit and market risks, there are insurance-specific risks relating to reinsurance design and asset/liability correlation. Operational risk is an area in which practice is developing and the collection of relevant data is only beginning. Actuaries are involved in the systematic modelling of these risks and their relationships using simulation tools and a range of statistical methods. Where data is scarce, for example in relation to extreme events, scenario testing techniques are used.

4.3 The questions that the actuary seeks to answer in the corporate risk management framework include the following:

- How can shareholder value be increased by improving earnings consistency?
- How can the key risks deserving of senior management attention be identified?
- What are the risks from acquisitions, new products, businesses or regions?
- What is the optimal profile of assets compared with liabilities?
- How should return on capital be maximised?
- How much capital is needed?
- How should capital be allocated?
- How should we business segment performance be evaluated?
- How should the reinsurance programme be structured?
- How can value be optimised while assuming risk?
- How should non-financial risks be measured?

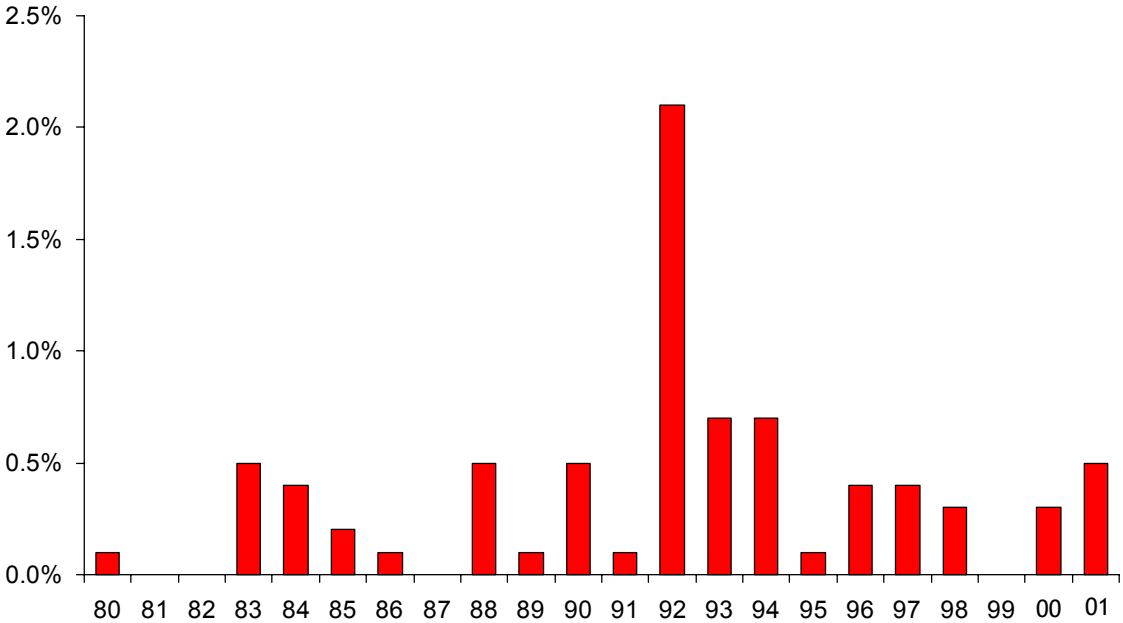
4.4 Actuaries have built integrated models capable of providing valuable insight into the range of risks faced by non-life insurance undertakings. The techniques used are varied but can generally be considered within the framework shown below. The results of these models are used to assist senior management in developing their business strategy.

Market	Credit	Insurance	Business	Operational
<ul style="list-style-type: none"> Investment returns 	<ul style="list-style-type: none"> Reinsurer default 	<ul style="list-style-type: none"> Claims volatility 	<ul style="list-style-type: none"> New business volumes 	<ul style="list-style-type: none"> Human Resources
<ul style="list-style-type: none"> Inflation 	<ul style="list-style-type: none"> Counterparty risk (derivatives) 	<ul style="list-style-type: none"> Policyholder behaviour 	<ul style="list-style-type: none"> Expenses 	<ul style="list-style-type: none"> IT
<ul style="list-style-type: none"> Currency 	<ul style="list-style-type: none"> Credit spreads 		<ul style="list-style-type: none"> Pricing 	
<ul style="list-style-type: none"> Liquidity 				
<ul style="list-style-type: none"> Country 				

- Asset Modelling, Econometric Modelling (Stochastic)
- Stochastic
- Business Planning, Utility Functions, Games Theory
- Conventional Risk Management, Operational Risk Assessment

5. The prudential supervision of non-life insurance internationally

5.1 Internationally, failures of non-life insurance undertakings are not rare events. The following table shows the annual default rate of UK non-life insurance and reinsurance undertakings:



Source: Sigma, FSA, own calculations

5.2 In a number of countries, actuarial certification has been introduced to provide early warning signals in order to reduce the damage that insurer insolvency causes.

5.3 The causes of insurer insolvency are various. The following table, based on US data, identifies some of these causes, with a significant proportion being due to inadequate reserving. The general pattern fits with that experienced elsewhere.

Main causes of insolvency *		Insolvencies	In %
Underwriting Risk - 63%	Insufficient reserves/premiums	143	34%
	Too rapid growth	86	20%
	Catastrophe losses	36	9%
Asset Risk - 14%	Overvalued assets	40	9%
	Failure of ceded reinsurance	22	5%
Operational Risk - 23%	Subsidiaries	26	6%
	Significant change of core business	28	7%
	Fraud	44	10%
	Total	425	

* excludes 213 non-identifiable and miscellaneous

Source: AM Best (US insolvency) own calculations

5.4 The insolvency of a non-life insurance undertaking has social and economic consequences. For example, at the time of the insolvency of PMPA, there was concern that reduced insurance capacity would lead to severe difficulties in obtaining coverage and to an increase in uninsured driving, with consequent social costs. The recent insolvency of HIH in Australia led to a severe reduction in insurance capacity in some sectors of the economy and to cessation of building work in New South Wales for some time.

5.5 Some of the regulatory approaches that have been adopted internationally in order to reduce the risk of insolvency are outlined briefly below.

UK

5.6 In the UK, Lloyds introduced actuarial certification of syndicate reserves when Equitas (the Lloyds rescue vehicle) was established. This was imposed by the New York insurance regulator as a pre-condition for his approval of Equitas, in order to protect Lloyds' policyholders in the US. The Lloyds regulatory department receives and reviews actuarial reports for each syndicate and provides informal feedback to the Institute of Actuaries; this feedback is intended to increase the benefits of the regulatory regime over time.

5.7 The UK regulator has adopted different models to non-life insurance regulation over time. A model adopted at one time was "freedom with publicity", with companies being required to provide detailed statistical information on a public basis. This exposed non-life insurance companies to scrutiny not only by the regulator but also by industry bodies, brokers and fellow insurers. This model is still in evidence in the FSA returns. The Irish returns similarly facilitate public scrutiny.

- 5.8 The UK regulator has also required certain non-life insurance companies to commission an independent actuarial review of reserves. One example is Weavers, where actuarial involvement led to recognition of inadequate reserving and reduced the cost to the UK taxpayer by shortening the insolvent trading period.
- 5.9 UK regulation has now developed to include a requirement that non-life insurance undertakings provide models of their capital adequacy for regulatory review, although this is still under development.

US

- 5.10 In the US, actuarial certification of reserves has been in place for many years, having been introduced following a number of insurance insolvencies.
- 5.11 Every US insurer must obtain an actuarial opinion annually, with this opinion being attached to the insurer's regulatory return. The board of the company or its equivalent must appoint the actuary and the actuary must make a report available to the board. However, the actuary is not required to present his results in person to the board, except in Florida. Some see this as a weakness in the system. The detailed reporting required is seen by some as key to the success of the US system.

Canada

- 5.12 The Canadian regulatory system incorporates an "appointed actuary" role in both life and non-life insurance companies. The statutory duties of an appointed actuary are:
- to report on the company's insurance liabilities on an annual basis
 - to submit an annual report to the regulator on the current and expected future financial condition of the company
 - to report on any matters that may have an adverse effect on the company's solvency.

The regulator does not prescribe particular methods but rather relies on the professional guidance and standards set by the Canadian Institute of Actuaries.

- 5.13 The appointed actuary's annual investigation of the company's financial condition examines the sensitivity of the company's solvency position to changes in the economic environment and changes in claims experience, amongst other factors, using the techniques of "dynamic solvency testing". The Canadian Institute of Actuaries has produced professional guidance covering the types of sensitivities that should be tested.

6. Philosophy of insurance regulation in Ireland

6.1 IFSRA's regulatory role includes both the prudential supervision of Irish insurance undertakings and the protection of Irish consumer interests. There is a natural tension between these twin objectives. The balance that IFSRA strikes between these objectives will determine the nature of the regulatory regime and will fundamentally influence the evolution of the statutory role of actuaries in non-life insurance.

6.2 Even within each of the two spheres of regulatory action, different philosophies may be applied.

Prudential supervision

6.3 As regards prudential supervision, the regulatory philosophy could vary from a "no failure" approach, to an approach based on "freedom with publicity" (the traditional Anglo Saxon model) to a non-interventionist stance (caveat emptor), as applies currently in reinsurance.

6.4 The philosophy may differ depending on the markets being served, if the view is that different markets require different levels of protection from insurer insolvency. In some countries, for example, there is legislation giving compensation rights to personal lines customers and small commercial customers when an insurance undertaking becomes insolvent. The legislative framework will exert influence on the objectives and modalities of regulation.

6.5 Choices also exist as to how international standards of regulation will be interpreted and applied, although there is a developing trend towards harmonisation both within the EU and globally under Basel II accords. The implication of the changes envisaged under Basel II is that the philosophy of regulation of non-life insurance is likely to converge with the philosophy underlying the regulation of the life assurance sector, and that there will be a greater degree of consistency in the approach taken to the banking and insurance sectors.

6.6 The regulator must also determine the extent to which regulatory supervision is delegated, the costs and who pays. The considerations will include the soundness of the regulatory system, cost and the elimination of unnecessary duplication.

Consumer interests

- 6.7 In relation to the protection of consumer interests, there are choices ranging from a permissive regime to a more prescriptive one.
- 6.8 A permissive approach (frequently referred to as a “normative” approach) relies on market competitiveness, commercial and entrepreneurial motives to ensure customer interests are met. In this scenario, the regulator typically monitors market operation and regulates distribution, the sales process and communication with customers.
- 6.9 A prescriptive approach may require insurers to submit some or all of the following; details of products, marketing materials, policy wordings and rates. The regulator may require this to be done on a “file and use” basis, or may require that regulatory approval is obtained.
- 6.10 The focus of regulatory approval may be either assuring rate adequacy (with a view to trying to ensure solvency), or as is more frequently the case, trying to secure advantageous outcomes for consumer groups. US rate approval systems are a good example of the latter. Rate regulation in the US places a heavy regulatory burden on insurers with questionable benefit to consumers.
- 6.11 It is noteworthy that tariffed markets were abandoned in the UK and Ireland some 20 years ago, while European insurance markets have moved in this direction in the last few years. It is also clear that heavily regulated markets did not secure significant benefits for customers, since profit margins have reduced in the period tariffs were abandoned.

7. The present and future statutory role of actuaries in non-life insurance in Ireland

Context

- 7.1 As mentioned in the previous section, the role of the actuary and, in particular, any statutory role, is highly dependent on the philosophy pursued by the regulator. In a principles-based regulatory regime, professional actuarial responsibilities are likely to be heavier and more diverse than in a highly prescriptive regime, in which the requirement is technical adherence to sets of detailed rules.
- 7.2 The role of the professional body is also determined to a large extent by the regulatory approach, for example, with regard to the extent of the role that professional actuarial guidance plays in the overall regulatory regime.

Present statutory role

- 7.3 The question of a statutory role for the actuary in non-life insurance was raised sporadically during the 1990s and the Society submitted a discussion paper on the matter to the regulatory authority in February 1997.
- 7.4 A professional paper, “A Statutory Role for Non-Life Actuaries”, which contained a comprehensive review of the issue - including the pros and cons, the different forms a statutory role might take, international trends, etc. - was presented to a meeting of the Society of Actuaries in Ireland in March 1998. In the ensuing discussion, a wide range of views was expressed, from opposition to any statutory role to advocacy of an “appointed actuary” role similar to that applying in life assurance. In general, there was caution about taking on a statutory role; however, something of a consensus did emerge in favour of a statutory actuarial opinion on non-life claims reserves.
- 7.5 In 2000, the IMF/World Bank carried out an assessment of financial sector regulation in Ireland and expressed surprise at the absence of any statutory actuarial role in non-life insurance. Following consultation with the main industry and professional bodies, the regulatory authority decided to introduce a requirement for an actuarial opinion on the end-year reserves of non-life insurance undertakings. The requirement for a Statement of Actuarial Opinion (SAO) was introduced on a trial basis for end 2001 and has been continued since then.
- 7.6 In the SAO the reporting actuary is required to state that, in his opinion, the reserves, gross and net of reinsurance, comply with applicable legislation and are greater than the actuary’s best estimate of the corresponding liabilities as at the reporting date. It should be noted that the SAO is a point-in time opinion and that responsibility for the reserves actually “booked” in the financial accounts remains firmly with the Board of Directors.

- 7.7 The actuary must be a Fellow of the Society of Actuaries in Ireland and must obtain a practising certificate from the Society before signing an SAO. Practising certificates are subject to annual renewal and are only granted to actuaries with significant claims reserving experience. There is also a requirement for a minimum of 15 hours' continuing professional development (CPD) per annum, of which at least 10 hours must be on subjects relevant to the role of the signing actuary.

Future developments

- 7.8 The SAO certifies that the reserves are greater than the actuary's best estimate of the liabilities and does not generally require quantification of the range and volatility of potential outcomes. The actuary is not required to consider the interrelationship between the liabilities and the corresponding assets, the nature of the reinsurance programme or the overall solvency position.
- 7.9 The actuary provides his or her opinion as at the reporting date and is not required to monitor the position on an ongoing basis or to model the expected position at any future date. The way in which the business is likely to develop and the future risks to which it is exposed are equally as important to a going concern as current operations; this warrants some "future" focus in the statutory requirements.
- 7.10 If IFSRA wished to extend the statutory role of the reporting actuary, this could potentially be done in the following ways:
- 1) The SAO could be extended to include an opinion on the **overall solvency** of the company at the reporting date. This would require the actuary to assess the available assets and to quantify any mismatching risk.
 - 2) Whilst the SAO is provided annually, the requirement could, over time, be extended to continuous monitoring of the solvency position throughout the year. This would require the actuary, *inter alia*, to assess the adequacy of the reinsurance arrangements
 - 3) The SAO could be supplemented by a periodic "**financial condition report**" - which would analyse the potential future development of the company's solvency position. This might be required on a triennial basis, in line with the requirement for life assurance companies.

The financial condition report would examine the sensitivity of the future solvency position to potential changes in the economic environment, claims experience and pricing strategy, as well as other relevant factors.

- 7.11 The Society considers that the prudential supervision of non-life insurance could be strengthened by extending the statutory role of actuaries. However, it believes that it would be necessary and appropriate to do so in a series of incremental steps, in the order outlined above.

- 7.12 The current system of SAOs is of relatively recent origin and it would be desirable that it be given some further time to mature and consolidate, before any further extension of the statutory actuarial role. There could potentially be resourcing issues if further statutory requirements were introduced within a short timeframe.
- 7.13 It would also be appropriate to consult with the industry and other stakeholders in relation to any extension of the statutory actuarial role.