



Institute  
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of Actuaries

# Who should do TPs: Finance or Actuarial?

Buu Truong – Insight Risk Consulting  
buu.truong@insightriskconsulting.co.uk



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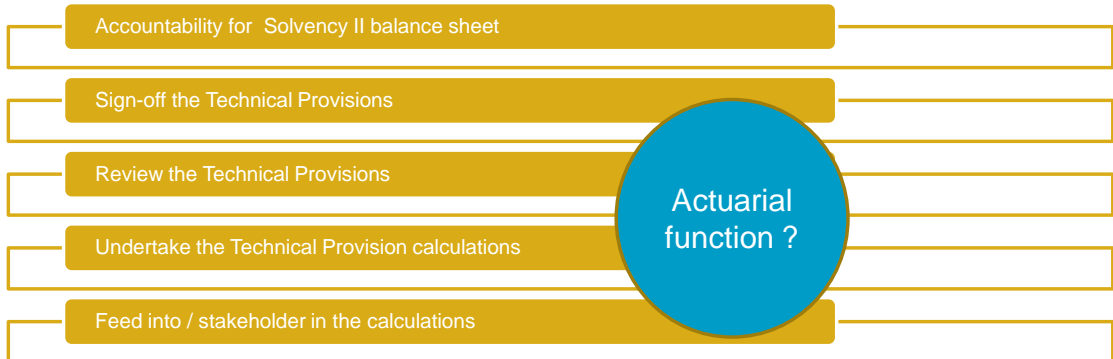
## History of TP ownership

- SII regulation allowed actuaries to embrace TPs with Lloyd's guidance, working parties and exciting conversations about asteroids hitting the Earth...
- Reserving and capital modelling actuaries started talking to each other
- Most reserving actuaries built excel based.
- TPs were mostly thought of as inputs into Standard Formula and only later SCR calculations.
- Actuarial teams talked about moving some of the regular work into the Finance team in the next few years...

## More recent aspects of TP ownership

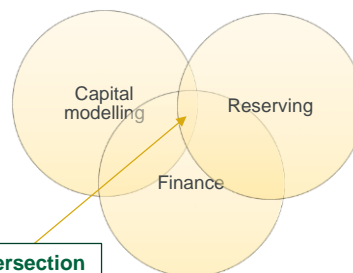
- The actuarial function has a defined role. This isn't new but somehow seems more relevant now.
- Teams are dissecting TP work whilst still meeting requirements.
- The need for a true actuarial best estimate has been great!
- The regularity of TP reporting demands an industrial strength TP solution.
- IFRS17 is around the corner...

## More recent aspects of TP ownership



## Technical Provisions interaction

- Reserving – Actuarial best estimates and reserving knowledge
- Finance - SII balance sheet for financial reporting
- Capital modelling – SII balance sheet for SCR
- Capital modelling - SII profit and loss
- Finance / capital modelling
  - Standard formula
- Finance – Forecasting for ORSA



Technical provisions sit in the intersection

## Current market practice – Show of hands

Question 1: Who conducts your TP process?

- Option A: Sits with Actuarial entirely
- Option B: Sits with Actuarial who receive some inputs from Finance
- Option C: Sits with Finance who receive some inputs from Actuarial
- Option D: Sits with Finance entirely

Question 2: What IT systems do you use for TPs?

- Option A: MS Excel front and back end
- Option B: Some kind of front-end with a database back-end (separate to financial reporting software)
- Option C: Some kind of front-end with a database back-end (part of financial reporting software)

Question 3: How good is your current solution?

- Option A: Great
- Option B: It could be worse
- Option C: It could be better
- Option D: Bad



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## Current market practice – In your groups

Question 1: Who **should** conduct your TP process?

- Option A: Should sit with Actuarial entirely
- Option B: Should sit with Actuarial who receive some inputs from Finance
- Option C: Should sit with Finance who receive some inputs from Actuarial
- Option D: Should sit with Finance entirely

Question 2: What IT systems **should** you use for TPs?

- Option A: MS Excel front and back end
- Option B: Some kind of front-end with a database back-end (separate to financial reporting software)
- Option C: Some kind of front-end with a database back-end (part of financial reporting software)



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## Broader considerations

Consideration	Actuarial	Finance
Company specifics	Organisational structure, personalities, existing workflow, existing systems, appetite for change etc...	
Governance	Actuaries are heavily involved with GAAP reserving and have historically managed a 'handover point' to Finance.	CFOs are often responsible for GAAP external reporting and financial accounts.
Regulatory	Need to 'co-ordinate the calculation of technical provisions' and more under the actuarial function. Hand-over point or boundaries are less well defined.	CFOs or CROs are often responsible for SII external reporting and regulatory accounts.
Cost	Actuaries can be expensive relative to other professionals for routine and potentially non-actuarial tasks.	
Process integration (inputs and outputs)	Actuarial, Risk and Finance processes are intertwined in many companies with no obvious workflow advantages. Where there is less integration, linear 'swim-lanes' can be easier. Related processes are GAAP reserving, standard formula calculation, SCR modelling etc.	
Knowledge	See following slide	See following slide



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## Technical issues

TP step	Actuarial	Finance
Removal of margins	Tend to be responsible for monitoring reserve margin in the GAAP figures.	Tend to be responsible for setting reserve margin in the GAAP figures.
Recognise UPR	Calculation of UPR is often a Finance calculation, but it is closely aligned where actuaries also do earnings (AY basis or earnings on UWY basis).	
Cashflows	Originally deemed 'actuarial' due to the synergies with payment patterns but not that actuarial.	
Expenses		Tend to be responsible for expense management and cashflow.
Bound but not incepted		Relatively easy to implement a rules based process at each valuation date.
Reinsurance adjustments	Due to the movement away from correspondence these adjustment are often currently complex and not as easily built into workflow.	
Events Not In Data	Actuarial calculation and allocation.	Could be calculated in a less 'actuarial' way.
Risk margin	Actuarial calculation and allocation.	
Discounting	Originally deemed 'actuarial' due to the synergies with payment patterns but not that actuarial.	

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