Access to Insurance Initiative
A global programme for sound regulatory and supervisory frameworks

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“Actuarial Approaches to Inclusive Insurance”

Expert: Jules Gribble, IAIS Secretariat
Country example: Michael Kofi Andoh, National Insurance Commission (NIC) Ghana

Moderated by Hannah Grant, A2ii
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2. Actuarial capacity
3. Consequences of limited actuarial resources
4. Proportionality
5. Role of experience
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10. Questions & Discussion
1. Some questions for you
• From a regulatory and supervisory perspective:
  • What are the key differences between inclusive insurance and conventional insurance?
  • What are the key similarities between inclusive insurance and conventional insurance?
• What does ‘proportionate’ mean when discussing the regulation and supervision of insurance?
• Why are actuaries important in the regulation and supervision of insurance and inclusive insurance?
• What are the core defining characteristics of insurance?
2. Actuarial capacity
• Services
  • Product development, pricing, risk management, solvency

• Use of those services
  • Model, analyse and interpret impacts of financial risks to inform business management so they make better decisions
  • Wide ranging – Operational risk for example
  • Entrenched focus on policyholder interests
  • Monitor actual experience (outcomes) against expected (desired / planned outcomes) and put forward adjustments as required
  • Range of transferrable skills which can be applied in many areas

• Relevance and relative importance in Inclusive Insurance
• Approximately half as many fully qualified actuaries as needed
  • Remove major actuarial countries and situation is much worse
  • May be improving, but slowly at best

• Practical outcome
  • In most jurisdictions where inclusive insurance is needed and developing there are nowhere near enough actuaries and this is unlikely to change in the near future
  • So what is ‘Plan B’?

• Support initiatives (and risk they entail)
  • CERA qualification, IFoA Certified Actuarial Analyst
3. Consequences of limited actuarial resources
Need for actuarial services

- Reduce risk of poorly informed business decisions regarding insurance products, risk and financial management of businesses providing insurance coverage that may adversely impact policyholders
  - Reduce risk of provider failure
- Improve understanding of long term nature of insurance and direct consequences of that
  - Reserves for future claims
  - Reserves for adverse experience and long term business survival – especially for investment products offered to support retirement (eg inclusive pensions)
4. Proportionality
• Not explicitly defined in ICPs
• ICP introduction, paragraph 8:
  • ‘... supervisors ... tailor certain supervisory requirements and actions in accordance with the nature, scale and complexity of individual insurers.
  • ... supervisors should have the flexibility to tailor supervisory requirements and actions so that they are commensurate with
  • ... risks posed by individual insurers
  • ... [and] potential risks posed by insurers to the insurance sector or the financial system ... ’
• What does this all really mean in practice?
• Typical focus of proportionality is on reducing obligations due to simplified products, processes, perceived needs
  • Risk is oversimplification in search of ‘efficiency’ (or worse)
• Inclusive insurance remains insurance
  • Core insurance principles therefore continue to apply
• Fundamental to managing insurance is grouping of policyholders so insurance risk can be managed at a group (statistical) level, not at individual level
• Size (of group) matters
  • Minimum group size below which a product is not insurance
  • Product complexity may aggravate the situation
What are the differences and similarities to conventional products

Conventional products often do not directly transfer to inclusive insurance products
  - Design, delivery, management and security all matter
  - Need understand differences in order to address them

Financial risks, as can be assessed by actuaries, arise at all links in the chain from purchase to claim.
  - Consider products directly and their (financial) consequences
  - Chains break at their weakest link – where is that weak link?
5. Role of experience
• The real and academic worlds are very different places

• Data is always incomplete and ‘dirty’
  • Need to be able to make informed judgements in a timely manner and have feedback loops entrenched to review outcomes and then manage by making consequential adjustments
  • May not be available

• Actuarial Control Cycle
  • A process/attitude that is generally applicable
  • Example: Financial Condition Reports (so familiar)
6. War stories
To develop good guidance we need your experience and practical input and to learn from

- Good and bad ...
- Need robust and practical solutions (vs text books)

Basic rule: Simple is good (especially for simple products). Principle of parsimony

- May imply need for standarised rules, so can be ‘boiler plate’

Simplicity of solution may belie underlying work

- Sanity checks – simple checks for reasonableness of outcomes etc

Issue: Who does underlying actuarial analysis
7. Supervisors managing actuaries
Interacting with actuaries

- Sometimes seen as difficulty ... Why??
- Lack of understanding of requirements and responses
  - Risk of both over and under expectations
  - Applies to industry as well as supervisors
- Lack of familiarity
  - Industry as well as supervisors
  - Risk of both over and under use and/or expectations
- Inability to get appropriate actuarial resources into supervisory bodies, and then retain them
- It is a two way, mutual, process
8. Possible approaches to resolution
Increasing the actuarial contribution

- Long term objectives and transition processes
  - Reality is it will be slow process, so transition steps critical
- Education – all key stakeholders need
  - Supervisors
  - Business
  - Actuarial profession
- Clarity of reasonable expectations ... and limitations
- What practical guidance and assistance is needed?
  - Now, soon, in an ideal world
  - ‘Business as Usual’ and stressed circumstances
• A2ii
  • Hannah Grant  hannah.grant@a2ii.org
• IAIS
  • Peter van den Broeke  peter.vandenbroeke@bis.org
• Presenters
  • Jules Gribble  jules.gribble@bis.org
  • Denis Garand  denis@garandnet.net
  • Rodolfo Wehrhahn  rodolfo_wehrhahn@yahoo.com
• ‘Addressing the Gap in Actuarial Services in Inclusive Insurance Markets’, International Actuarial Association, Issues Paper, May 2014 (see www.actuaries.org)

9. Country example – Ghana

Michael Kofi Andoh, National Insurance Commission (NIC) Ghana
What is ACDC?

• Formed in 2012, in the context of bilateral cooperation between NIC and GIZ

• Objectives
  • Ensure adequate supply of suitably qualified actuarial staff to carry out technical actuarial functions in insurance firms.
  • Build capacity to comply with the ICPs
  • Fast track the development of actuarial capacity within Ghana provide the bulk of the actuarial resources needed.

• Composition: NIC, ASG, GIA, GIC, UNI representatives

• Actuarial capacity development strategy document approved by the NIC.
Three levels of actuarial professional

- Appointed Actuary
  - Fellow of a recognized actuarial association
  - Part or full-time employee or external
- In-house Associate
  - Associate of a recognized actuarial association
  - Part or full-time employee
- In-house Affiliate
  - Actuarial Science or related major graduate
  - Full-time employee
  - Progressing towards associateship
Important milestones

• Actuarial Capacity Development Strategy
• UK and US Actuarial Study Tours
• Ghana Insurance Industry Database (GIID); Prototype Motor database with Applied Industrial Logic
• Microinsurance Actuarial Life Pricing Toolkit with UK Government Actuary’s Department
• Certified Actuarial Analyst Programme in Ghana with GIC – IFoA
• SOA Actuarial Professional Exams Tutorial Programme with ASG– SOA and Actuaries without Boundaries (AWB)
• Microinsurance Health Pricing Toolkit with GIA/GIC – Milliman and ILO
• Governance and Risk-Management Framework
1. Involve all relevant stakeholders
2. Conduct a landscape study and capacity gap analysis
3. Well planned study tours
4. Document your strategy and solicit for comments/inputs
5. Build capacity for implementation
6. Carefully balance regulatory requirements with value proposition
10. Questions and discussion