

Introduction to ILA Module

MODULE INTRODUCTION

Actuaries play a critical role in Life Insurance companies to assess the probability of an event and its financial consequences. The Introduction to ILA module will give an overview of the role of an actuary in a Life and Annuity context. The module will give a strong foundation of understanding of life insurance and annuity product features, markets and distribution. Candidates will also learn the fundamentals of product development, pricing, reinsurance, valuation, financial reporting and administration. This module lays the groundwork for the Fellowship exams in the Individual Life and Annuities track.

Module Learning Objectives

After completing this module, you should be able to:

- Understand the role of actuaries in an insurance company context.
- Understand life insurance and annuity product types, benefits and product features; insurance market, consumer needs and distribution channels; and types of companies in the insurance space.
- Assess the financial reporting environment including key stakeholders.
- Understand the basic product designs, design process and actuarial cycle.
- Understand the theory of reserving.
- Understand the basic insurance administration, underwriting of insurance risks and payments of claims.

Module Sections

The Introduction to ILA module consists of six sections:

- Section 1: Module Introduction and Role of the Actuary
- Section 2: Products, Markets, and Company Type
- Section 3: Insurance Company Financial Reporting Environment
- Section 4: Product Development Process
- Section 5: Basic Principles of Reserving
- Section 6: Insurance Administration, Underwriting, and Claims

In addition, this module contains an End-of-Module Test and an End-of-Module Exercise.

SECTION 1: MODULE INTRODUCTION AND ROLE OF THE ACTUARY

Introduction

This section will focus on the actuary's roles and responsibilities in a life insurance company.

Learning Objectives

The goal of this section is to provide you with an understanding of:

1. The roles and responsibilities of actuaries in life insurance companies, such as in the areas of valuation, pricing, policy illustration, and enterprise risk management.
2. The key functional areas of a life insurance company.
3. Valuation methods applied in the Canadian and US life insurance industry.
4. How actuaries perform experience studies and use study results to set assumptions.
5. How actuaries develop actuarial models, such as pricing, valuation and capital models.

SECTION 2: PRODUCTS, MARKETS, AND COMPANY TYPE

Introduction

This section provides an overview of key concepts related to life and annuity insurance companies, products, and distribution. This section will introduce you to:

- Different company structures that engage in life and annuity business;
- Various types of life insurance products, riders, and benefits;
- Various types of annuity products, riders, and benefits; and
- The different markets and distribution channels through which life and annuity products are sold.

This section sets builds a foundation of understanding for the more detailed information that follows in the remaining sections of this module.

Learning Objectives

Upon successful completion of this section, you will be able to:

- Define life insurance.
- Compare life insurance product types, benefits, and product features.
- Describe annuity product types, benefits, and product features.
- Discuss other individual insurance product types, benefits, and product features.
- Explain insurance market segments including size and trends in life insurance.
- Explain distribution channels and trends in life insurance.
- Describe types of insurance companies including mutuals, stock companies, and companies with nontraditional structures and business models.

SECTION 3: INSURANCE COMPANY FINANCIAL REPORTING ENVIRONMENT

Introduction

While there are different roles actuaries may hold, when an actuary works in a Financial Reporting Environment he or she is typically referred to as a “Valuation Actuary” or “Corporate Actuary.” This role requires strong knowledge of Accounting and Valuation Requirements for life insurance companies.

This section is an introduction to the insurance company financial reporting environment. The goal of this section is to answer the following questions, and more:

- What are the different types of accounting and valuation principles/standards?
- What is the process of financial reporting for life insurance companies?
- What are the considerations for solvency for life insurance companies?

Learning Objectives

After successfully completing this section, you will be able to:

- Describe accounting and valuation requirements for life insurance companies.
- Describe key financial statements for life insurance companies.
- Explain the financial reporting process including key stakeholders.
- Explain the general components of life insurance solvency frameworks, including key regulatory topics and considerations.
- Describe primary considerations for establishing financial reporting control environments.
- Explain the components and considerations for audits on actuarial calculations and describe the audit process.

SECTION 4: PRODUCT DEVELOPMENT PROCESS

Introduction

Every insurance company is different. Some companies are large international companies with multiple product lines and distribution systems. Other companies are small with one or two products and might only serve one small jurisdiction. The different characteristics of each company provide them with distinct competitive advantages to serve consumers.

Before getting into the product development process, it's important for a company to have a clearly defined strategy to target specific markets with the right products. The better the company strategy aligns with its competencies, the more successful they are likely to be.

Learning Objectives

After successfully completing this section, you will be able to:

- Describe basic product development strategies.
- Summarize the product development process.
- Describe and recommend basic product designs that are consistent with market needs, tax and regulatory requirements (including anti-trust).
- Explain basic reinsurance arrangements.
- Identify the main product risks and explain how they are mitigated through product design and reinsurance/hedging.

SECTION 5: BASIC PRINCIPLES OF RESERVING

Introduction

In this section, we will focus on theory behind reserving and its application to individual life and annuity products.

Learning Objectives

After successfully completing this section, you will be able to:

- Describe the basic theory of reserving.
- Explain basic release of risk concepts.
- Assess how to measure reserves.
- Explain how standards-setting bodies recognize measurement of reserves in financial statements.
- Explain the basics of stochastic reserving.

SECTION 6: INSURANCE ADMINISTRATION, UNDERWRITING, AND CLAIMS

Introduction

We might often think of actuarial roles as purely related to pricing, reserving, or financial reporting. However, the administration of policies is a very important part of a company's success as well as the contractual responsibility it has to its policyowners. Actuaries play a critical role throughout the lifecycle of a policy from product implementation and policy issuance to paying a claim or providing surrender benefits. In this section, we'll focus on areas outside of a traditional actuary's role such as insurance administration, underwriting, and claims.

Learning Objectives

After successfully completing this section, you will be able to:

- Explain basic insurance administration and how actuaries are involved.
- Describe underwriting regimes, applications, preferred criteria, and screening tests.