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Natasha Regan
Financial Reporting Council
8th Floor
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Dear Natasha

Joint Forum on Actuarial Regulation: A risk perspective

I am writing on behalf of the Association of Consulting Actuaries (ACA) in response to the above consultation document issued by the Financial Reporting Council (FRC) on 20 October 2014.

Although we believe that taking a joined-up approach to working with the industry will result in stronger and more effective regulation, we have significant concerns around the JFAR paper referenced above in that it potentially identifies a whole suite of risks that impinge on actuarial work that may in fact not exist.

We recognise that JFAR needs to identify all the potential risks that might arise in relation to actuarial work. However, we strongly believe that there then needs to be full consideration of those risks that have high impact and/or high likelihood. To try and mitigate against all risks however remote or unlikely will result in a disproportionate and unwieldy regime that will ultimately be prejudicial to public interest.

An appropriate next step might be to consider an investigation into actual pieces of actuarial work in specific areas to establish whether there are in fact adverse themes that would merit a response (which might be through any of education, supervision or regulation). Such an investigation might include a well-structured survey of the users of actuarial work.

The clear danger with constructing an analysis based on a presumption of a series of hypothetical risks is that it then leads to a desire to mitigate when there is in fact no issue to deal with, or the nature of the problem is entirely different. Not only might the solution be unnecessary, it could have adverse consequences in itself.

Indeed, it is entirely feasible that current or new regulation in general and actuarial regulation in particular could create risks to the public interest. Inappropriate regulation based on the areas identified in the paper is likely simply to lead to increased costs and reduced stakeholder engagement.

Instead, our strong suggestion is that a more dynamic approach is adopted that focuses on known issues; that any response is based on principles rather than prescription – a good recent example being the liability management code of practice – and which engages with Government to develop/ improve/ simplify the legislative environment.

In the Foreword on page 1 there is a presumption that poor actuarial work can lead to risks to the public interest, whereas good actuarial work “mitigates risks to users and the public”. We don’t necessarily see a particularly strong connection between the quality of actuarial work and the crystallisation of risks. The risks exist regardless of the actuarial work and may crystallise regardless of the quality of the work.

We suggest that the focus for a regulator of actuarial work should instead be on the quality of actuarial information, whilst leaving it to others (either regulators or government) to consider whether the users of actuarial information have the appropriate skills and opportunity to interpret and apply that actuarial information (along with other information, financial or otherwise) within the management of the entity and in so doing contribute to the reduction of risks to which that entity is exposed where this is possible. In many situations actuarial information can only deliver insight.

It also seems to us that the tone of the paper is unduly negative in parts. Under “*inherent factors in actuarial work and its use*” it is in effect making numerous suggestions that actuarial work can easily be deficient, without any evidence that it has been or is.

The paper sets out an extremely broad range of potential or theoretical risks but quite how many of them are risks in the real world, or which can reasonably be addressed, have not been assessed. And much of any necessary regulatory response already exists within Actuarial Professional Standards and Technical Actuarial Standards.

At this stage we have not responded in detail on the consultation paper as we believe the issues we have raised are so fundamental.

We hope that you find our comments of assistance and would be happy to discuss them further if that is helpful. You can contact me on 020 7311 3103 (david.fairs@kpmg.co.uk), or through David Robertson of the ACA secretariat on 020 3102 6761 (david.robertson@aca.org.uk).

Yours sincerely

David Fairs

Chairman

Association of Consulting Actuaries

Sent by e-mail to: JFAR@frc.org.uk

About the Association of Consulting Actuaries (ACA)

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes.

The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body. The Association is a full member of the International Actuarial Association.

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