Financial Reporting Council

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Event Transcript:
Risk and Public Interest: a focus on insurance

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Introduction

Stephen Haddrill

Chief Executive, Financial Reporting Council

Ladies and Gentlemen, can I ask for your attention for a few minutes? My name is Stephen Hadrill. I am Chief Executive of the FRC and, perhaps more relevant to this discussion today, the Chairman of the JFAR (Joint Forum on Actuarial Regulation) group of regulators. I want to welcome you personally to the FRC and spend a couple of minutes on this exercise, and then I will hand over to John Instance, who is going to introduce it in a bit more depth.

We set up the JFAR because we were very conscious that there were quite a considerable number of separate regulatory institutions that had a strong interest in actuarial work and that what we needed was a better integrated, more holistic approach to regulation in this area. We felt that, on the one hand, we had a responsibility as the FRC for setting actuarial standards, but we do not have much day-to-day experience of seeing actuarial work on the ground, whereas the PRA, the FCA and the Pensions Regulator do. They bring us a sense of what is happening out there in the real world and it is our job to reflect that into the standards if appropriate and equally to help them understand what the standards are expecting of the actuarial profession. That is why we brought the JFAR together.

We felt from the outset that we needed a pretty clear idea of the risks facing the profession and that is where we did a lot of work over the first year of the establishment of the JFAR to try to identify what those are. This consultation exercise is principally about helping us to understand whether you think we have the right risks, the right hotspots, in the areas we are focusing on. Secondly, we did it because we want to help play our role as regulators in helping to stimulate debate within the profession around: whether the approach to risk is appropriate, whether there is a focus on the right issues across the profession, and so on. It is a bit of a contribution to your thinking as well.

Obviously if you get four regulators in the room there is a fairly significant risk that we might run away and write some more standards or regulation. That is not the principal objective of this exercise. If you feel that the standards are not appropriate to the risk, tell us, but we are not making any assumptions that a regulatory response is necessarily required in any of these areas. Indeed, our starting point is probably quite the opposite. That is something else you might want to reflect on and tell us about. So, without more ado, let me hand over to John.

John Instance

Interim Director, Actuarial Policy, Financial Reporting Council

To quickly go through our agenda today, Stephen and I are introducing, very briefly, the session, and then we are going to open it up for you to discuss one of four risks. Each of you is sitting at a table; on the table you can see the risk you will be discussing. Having had that table discussion, we will then open it up. There are four volunteers, or four people I volunteered, to gather feedback from the table discussions. I will invite them up to the front to give feedback on those discussions and then open it up on each of those risks to a more general debate from the floor. As you will know if you have read the *Joint Forum on Actuarial*

Regulation: A risk perspective document, we came up with 12 broad risks and, within those broad risks, between 40 and 50 particular hot spots. If you want to bring any comments on those issues, we have a little time at the end, and finally I will brief you on what our next steps are, and then I hope you will join us for about half an hour of networking over a glass of wine and some canapés.

As Stephen said, what is the Joint Forum? It is, we think, a unique collaboration of regulators. It is unique in a worldwide sense. There are five members: the FRC, IFoA, PRA, FCA and TPR, and I suppose the interesting thing this shows is that the regulation of actuarial work is quite diverse. You have two direct regulators, the profession itself and the FRC, and then you have the other three, the insurance regulators and The Pensions Regulator, all with a very keen interest in the quality of actuarial work but coming at it from a slightly different direction. That creates risk in itself in terms of gaps, overlap and perhaps excessive regulation. Perhaps we might bring some of that out today.

We set up the Joint Forum in 2013 to try to coordinate our response to the quality of actuarial work, to try to minimise those gaps and, to your benefit, reduce any overlaps and excessive regulation. As Stephen said, our first step after quite a lengthy period of discussion and reflection was to produce this risk perspective document back in October. As you can see, we are just drawing our consultation on that to a close. Within that document we identified a number of key risks that we developed out of an extensive process of consultation. We held meetings with each of the practice boards of the profession, each of the regulators brought some risks to the table, and we went out and spoke to users. We run an actuarial stakeholder group here at the FRC, which consists of a number of users of actuarial information. We brought together a whole range of risks to the public interest where actuarial work might be important or relevant. We take quite a broad view of the public interest, so that enables you to have quite a broad discussion today.

We cover all areas of actuarial work, but today we are focussing on insurance. We have another event tomorrow, and you are welcome to come to that, which is going to focus on pensions.

As I said, we have got four risks. Each table is going to consider one risk. First, table one, led by Kim Durniat, will look at modelling. Actuarial work relies extensively on modelling and that creates, in itself, a number of issues. Are you using the right model? Are you using it properly? Are we communicating the results of that work appropriately? If those things go wrong, all sorts of nasty things might happen. One of my colleagues was talking to people yesterday about the risks around pricing in general insurance; how easy it is if you are using the wrong model to get the wrong results. That might be either a detriment to public, because they are going to get overcharged or undercharged, or to shareholders of the company, who may not be going to make the money they thought they would.

We are also talking about groupthink. As actuaries we train together, we come from a similar background, a lot of us are mathematicians, and there is a risk of thinking the same way. Of course if we all think the same things that is great if things go well, but if something goes wrong, it then goes wrong systemically and it is bad news for a lot of people. It is one of the big risks. One of the things that has come out is that regulation itself might cause groupthink, because it forces people into a particular way of doing things. That might be an issue you might like to talk about on table two. That table is led by Nick Dexter, who is currently with the PRA, but I am sure he will be open-minded.

On table three we have an interesting discussion topic around changes in the external environment. Again, we are taking a very broad view of what those changes might be. Some of those changes could be political and legislative, and one of the things that will be discussed tomorrow at the pensions session will be all the changes happening in pensions come 6 April. You might consider how political and legislative change affects the environment. We have economic issues, such as the bad news around what might be happening in Greece; how might that change things? We have the change historically from a high-interest environment to a low-interest environment. All these sorts of things can have an impact on actuarial work in insurance. Of course, we have demographic change, including longevity and general demographic shifts and how they might impact actuarial work in insurance. Andrew Hitchcox is going to lead the discussion on that table.

Finally, we work in a very competitive industry in insurance. That is a good thing in terms of the public good – customers are likely to get good products at good prices – but also it can mean firms take risks. There is pressure on premium rates at the moment in GI. There are low investment returns, and what does that mean? We have seen firms moving into new product lines, taking more risk than they used to and that creates risk in itself.

I am going to let you break into 15 minutes of discussion. How important is actuarial work in mitigating the risk that you are thinking about? How well is the role of the actuary understood? What potential mitigations might there be and how might we in the JFAR support practitioners in responding to those risks?

At each table there is a question sheet for the table leaders to guide the discussion and take notes with. Around16.45 I will invite the table leaders up to the front to give you feedback. Now it is over to you.

[*Breakout groups discussed the issue*]

Discussion

John Instance

I am sorry; there are a lot of good conversations going on in here and I feel very guilty about drawing it to a conclusion. Could I invite the table leaders up to the hot seats up at the front, please, to give their understanding of what was talked about on their table? Kim has to go first.

Kim Durniat, Partner, Barnett Waddingham

We had a very varied and wide conversation. I will try to summarise what we were talking about but please, my group, butt in if I forget bits, because I am sure I will. We were talking about the communication of the model as the important thing. The feeling is very much that the actuaries understand the models and they have the skills to do the modelling, and we discussed whether there was appropriate training for the actuaries on modelling. We think that the actuarial profession has the modelling exam which covers that nicely. We think we have seen a great improvement in models over the last 10 years or so. However, the real conversation was focused on communication and making sure people understand the models and their limitations. In the past the thinking has been, ‘Oh, the actuary has done it, so that is right,’ or ‘I am not going to challenge the actuary; it is actuarial stuff, so it is okay.' We think that it is the process of getting the board and other people involved to that level where they are happy to challenge the model. We were discussing that it might be a process that takes some time. Ideally we would want that to happen on day one, but you have to realise that, if it is new stuff like internal capital models being considered, there might be lots of complex modelling that is new to them. You need to really take them through that journey. Ideally we would love them all to understand it on day one, but you need to work on that.

Then the discussion focused on whether actuaries have the skills to communicate those models. We were saying that we think there are some actuaries that are very good at talking it through and explaining it to a non-technical audience. However, there are other actuaries who are very good at talking to actuaries about their models. Getting that process right and how you communicate the result is a key thing.

We discussed the training of actuaries; we acknowledge the communication exam is there. Could any more be done on the training? I am not convinced, but that would be something I would be interested in hearing other people's thoughts on. The TASs are very good, especially around the reporting. People might think that fully TAS compliant report might be onerous but it is about applying the TASs in the appropriate way. It is a good checklist and a good way to ensure you are covered when you are doing your written communication.

. We also talked about the complexity of the model and whether you need a full, big, complex model or a simpler model, when you are required to run results more quickly. It is about making sure that the user understands which model you have used and what the limitations of those models are. That is one we thought was not particularly covered in the hotspots: the timing and the complexity. I did question whether things have to be so complex and whether boards can really understand that complexity.

Then we were talking about how the modelling might be okay but it is the inputs into the models and the expert judgement that are important. Do people understand the business well enough and is that all flowing through? Do boards really understand it?

John Instance

Does anybody else have any contributions they would like to make around modelling at this stage?

Nick Dexter, PRA

I would probably just say one thing here. As a fairly new regulator, but long time audit partner, I agree with the challenge around models, and I do think that we make them a bit too complicated. On the other hand, to be fair to the actuarial profession, we see an awful lot of non-execs who say they are frightened of challenging the actuaries but they do not follow it through. Be humble and say, 'I do not understand this; can you explain it to me?' It is not totally the actuary's fault for not communicating. It is partially, but it is also the fact that boards and non-execs have not reached out to the actuaries and taken on board that they do need to understand them.

Participant

I have a point on modelling generally. There is an assumption that everything is modelled. My experience has taught me that not everything is modelled or capable of being modelled. We are talking about risk inappropriate to model, but if you make a decision based on something that is not modelled or not modelled correctly, do we feel that is captured? Is there always an assumption that, out of 100% of the population, most of it is modelled or it is all modelled? I do not think that is always the case.

Participant

Just a thought on communication, and I have seen this a number of times: it is very easy to explain the maths behind the model rather than explaining how the model fits the risks to the business. The moment you do that you are taking any responsibility away from the board. It becomes a mathematical discussion. If the actuary can explain it in terms of how various aspects of the model fit the risks, it is a lot easier for the non-actuary to look at the risks involved and say, 'That is a reasonable approach,' or 'That is unreasonable; have you thought about this?'

John Instance

So, talk in language that your audience understands.

Participant

It has to come back to the business and the risks, because that is what you are trying to represent. It is not maths.

Kim Durniat

One of the points that Nick Dexter mentioned about the board challenging and the fear factor of not wanting to admit they do not understand it. The point was made that, in the end, you can kind of sense check. Does it sound right? Is it common sense? That is where the boards need to take on the responsibility.

Nick Dexter

Exactly.

John Instance

Right, Nick, shall we move on and talk about groupthink?

Nick Dexter

Clearly an issue around groupthink, as I think, John, you said in your introduction, is that Solvency II and other regulations necessarily drive us towards a common way of doing things. There is a tendency for regulators to use indicators to see what other companies are doing, and there is a tendency for companies to think, 'Well, I get an easier time if I am in the pack rather than outside of it.'

There is an issue around the things that should be similar, and therefore if you are an outlier against something that should be similar. My illustration is around economic assumptions where, notwithstanding different investment mixes, firms' assumptions should be similar. But for other assumptions often there is no real reason why they should be the same but often one would expect them to be similar.

Necessarily, there is a risk of negligence. If things go wrong and you are outside the pack, you are in a different position than if things go wrong and you are in the pack and it seemed reasonable. That is an issue. From the regulators' side, there is a feeling that regulators have to cover things that have happened and they are defensive about it happening again, and therefore will challenge things that are outside their borders. That is an issue.

We talked a bit about firm style and the fact that consultancy firms that are dealing with companies quite often have a house style, and that drives groups of companies to have similar assumptions, just because they use the same firm of consultants or external auditors or whatever. There is, I think, definitely something in that.

Having said that, does groupthink stifle innovation? If the regulator is concerned about something being outside of the norm or a risk, that could also be a problem as is disincentives firms moving away from the norm.

The other area we talked a bit about is culture within organisations rather than across the industry. If you have a strong culture, sometimes because of strong CEO, that tends to drive groupthink within an organisation. People do not want to threaten the status quo or perhaps do not even see outside their own experience. That can be an issue. Sometimes there can be a culture within the actuarial function of an organisation that gets handed down from generation to generation, and that can be a constraint.

The actuarial culture might be one of the benefits of Solvency II. It may be that line one, line two independent review might help with breaking that down, but it is too early to say.

John Instance

Thank you, Nick. Does anybody else have any views around groupthink? We were quite diverse on our table. The actuaries on the table were in the minority. We had two lawyers and two accountants as well.

Participant

We were talking about changes in the external environment, and one point that came up was, if you have something very big, it can feel quite overwhelming in terms of how you model risk, and climate change was the example we were talking about. Groupthink can mean that people tend to think, ‘It is so difficult and there is so much information out there, and I do not know which information is and is not reliable, so I am not going to tackle it at all.’ Perhaps in that situation the regulator can play a role in breaking groupthink by putting out information that people can see as reliable and use that to break the pattern.

Participant

We did have a common ground. The flipside of that was that, in some areas, there is so much information that certainly only the bigger organisations have the capacity to fully absorb it. Therefore, there is a reliance on external analysis of data. Alongside that, there is the obvious one around mortality data, where we rely on an external agency, and therefore there is some sort of anchoring on that external analysis.

Participant

There is a small pool of consultants advising a lot of large companies. Hence there is a greater risk of groupthink in all sorts of advice.

Participant

Could I ask a question just following up on the concern about the role of the regulators in taking, as you say, a model like that or, say, a new regulatory development at European level? Any of the industries represented in this room will look to the regulator, whichever that might be, for guidance. The regulator itself is paralysed into not wanting to give guidance and not wanting to take the lead for fear of getting it wrong, judicial review, interfering with competition – call it what you will. It is a very open question to the regulators in the room. How much do you think about that? I know events like this are all part of the mix in determining how you solve those problems.

Nick Dexter

Certainly there is a lot of consideration of how far we can go as a regulator, and there are certain themes where it is important that we give fairly detailed guidance. In some ways, we do not want to go too far, because essentially it is principle-based regulation. It should be for people to interpret the principles, but there is a balance between having too much uncertainty, so you end up trying to regulate a herd of cats, and giving too much, so you end up with regulation that is not fit for purpose. That is a real dilemma.

Participant

If you go back some years to when the FSA introduced the ICA regime, firms were meant to be invited in a principles-based system, saying what was the appropriate equity stress or market stress or the other stresses that we use. However, the FSA commissioned some research on what it thought some of those measures should be. It got some independent research to inform their veiw. However, of course, it is up to firms to justify the figure they come up with is appropriate.

Participant

However, it does not usually end up stifling competition and innovation, because the market sorts it out.

John Instance

Is there are role for the regulator to ask the question? Taking that climate change example, I noticed the PRA wrote a ‘Dear CEO’ letter, saying, ‘What are you doing about climate change?’ Rather than saying, ‘You have to do x, y and z,’ they say, ‘Think about it. How does it affect your business?’ There may be a role for the regulator to ask the challenging questions, rather than say, ‘You must do *x*, *y* and *z*’.

Nick Dexter

Incidentally, part of the role of the regulator is to identify systemic risk. It needs to have a common basis for tallying up all the risks that are affecting the industry. There is a certain element of: ‘Do we want to encourage debate in certain areas so that we can assess the impact?’ Climate change is one where we need to do that. There is the work on a Climate Change Adaptation Report to DEFRA and open meeting in the middle of March on that subject.

Participant

There is a role here for the wider industry as well. It is something the Institute of Risk Management, where I come from, together with the Faculty and Institute of Actuaries, is looking at modelling. We set up an interim model industry forum, working with the PRA, to try to get the industry to identify what it thinks is best practice and have a forum for thrashing out some of these ideas without forcing the regulator into the position of saying, 'Yes, we like this; no, we do not.' There is a wider industry role in helping to develop these things as well.

John Instance

Thank you. Let us move on. We are into climate change, so over to Andrew and thinking about changes in the external environment.

Andrew Hitchcox

We were asked to discuss the impact of climate change, technology shifts – including cyber-risk – and sharp changes in long-term trends like longevity or interest rates. With interest rates, is 0.5% the new normal? Is it going to snap back to 5%? Finally, we discussed retrospective changes or changes of practice, e.g. legislative changes.

I will answer in groups. On which hotspots are the highest priority and which we have missed, you will be glad to know that three out of the four were the highest priority. On climate change and cyber-risk, first, the feeling was there are the least data there, so there is the most need for expert judgement. Secondly, subject matter experts do not agree, so what can the poor old actuary do in this regard?

On retrospective changes, the good old actuarial argument: you have a back-book of 20 years' worth of risk that gets hit, which you may not be able to adapt the price or terms and conditions for, whereas in principle you can adapt to change in the going-forward book. We felt retrospective change was also one of the topics, so three out of four qualified.

Then David kindly chipped in: 'Actually, those are specific risks. The underlying theme is the speed at which you adapt to change.' As you know, if you have 200 years of data to model your 1-in-200 risk, you can see there are different eras. If you look at interest rate charts or exchange rate charts across the last 200 years, you can see different eras quite clearly. Sometimes they are 10 years long and sometimes 50 years long, but probably none of them are applicable to today's environment. What do you do about that?

There is one thought I had that I did not share with my table, because I have thought of it since. Should some body – the IFoA or the regulators that are interested in the public interest – have some alert mechanism that, once every six months, a bit like the 'Dear CEO' letter on climate change, the joint regulators say, 'Guys, tell us what you are doing about these four things, and they are different from the ones we asked you about six months ago'? As you say, if nothing else you prompt the question, and you copy that to the boards. You send it to the chief actuaries and the boards. I do not know what happens next, but at least everyone is arguing about it and at least you stop the poor old actuary who does not read the newspapers and is too busy with his computer. You bring to his attention that the train has changed and he has to be doing something about it to reduce his risk. So, that is an idea.

We mentioned that some of these problems look too big to solve for the poor little actuary on his own. I have very definite personal opinions about climate change and model risk, but I cannot change the world. Therefore, can some collective body – e.g. the profession – start doing solutions, but then, of course, we run into the risk of groupthink. However, I am willing to take the risk of groupthink if we are doing something, because otherwise all the individuals on their own possibly cannot do something. If you have 300 insurance companies around the country and 300 poor little chief actuaries trying to solve the problems, that will not be as strong as if you get the clubs of 30, 50 or 100. That is another thought.

In talking about what potential mitigations there are for these risks and what support JFAR can provide, I have just realised you can see a theme emerging by accident. We need to sponsor the sharing of information somehow. We have heard that there is too much information out there. Somebody needs to summarise it. We have heard that there are people all round the country; how do you make sure they are all up to date? We need some central sharing of information, if that is the correct word. I said 'questions' a minute ago. Once you start sharing questions, people will then say, 'Can you help me answer this question?' It is a matter of thinking ahead to that.

I will stop there for the moment. Apologies – like Carolyn Williams said, however, it has to be more than the actuarial profession. This is a theme you will recognise, John, I always sponsor. We need to get more into the habit of cross-profession working. Let us start with climate change. Clearly, the actuaries do not know everything about climate change. Go to cyber-risk; clearly, we do not know enough.

I will phrase this carefully. When I was a young lad 30 years ago, the profession was very proud of its standalone brand. I think we need to discuss not diluting but sharing the brand. Once we start sharing the recognition, we get into demarcation issues. We are seeing these big issues force us to work more with professional bodies that we have in the past. If we embrace that, regulating us on that standalone basis becomes a little harder – or more interesting. How about that?

John Instance

Are there any further comments on risks around changes in the external environment?

Participant

One sounds like it was not really discussed – political risks. The risk floating around some firms' business plans that the world changes, like pensions freedom, and their business disappears off the face of the earth. Another example is where some firms ended up running Child Trust Funds, which of course got stopped two years ago or whenever it was. They ceased to exist.

Participant

The other side of the coin with the major external changes is the resilience agenda. If you do get it completely wrong, how resilient is your organisation in bouncing back from getting it completely wrong? As well as trying to model what might happen, your organisation also needs to be thinking about what would happen if it was totally over.

Andrew Hitchcox

I am hearing the room recommending that the PRA pushes up the agenda reverse stress tests and recovering resolution planning. Is that right?

Participant

I am doing my best, Andrew.

Andrew Hitchcox

So, the gentleman at the back is correct. The regulators should be challenging us, when we do our reverse stress test, to show that policy holders are not harmed, but then our shareholders want to know how we are going to bounce back. You regulators need to persuade us to look at the positives first before we move on to the shareholders, because guess what my shareholders are asking. You get my drift.

Participant

Yes, exactly. I certainly agree with you it is more than the actuarial profession. In the work we are doing on climate change, pulling together our paper, we are uncovering more people working on climate change in different universities, research bodies and so on than you can shake a stick at. It is incredible; in trying to stop wheels being reinvented all over the place, there is an awful lot of joining up of people's thought processes.

Andrew Hitchcox

Risk is about downside and upside, so can I look at the upside risk opportunity here? Given that one has to assume that many climate change models have political bias in them, surely there must be an opportunity for a profession used to validating models to be involved in that process. When the government decision-makers are making their decisions, there should be a validation process that goes alongside that. I am not saying it is just the actuaries; it will be actuaries plus the subject matter experts.

Participant

I think meteorologists are possibly better at validating models than the actuaries are.

Participant

That is on a subject matter basis, but sometimes we are good at the general modelling skills.

Nick Dexter

I think the GAD has now a wider role in government bodies of validating models post the West Coast Main Line problems. Maybe we should make sure we link up with the GAD.

Alan Joynes,

I would add one more to the list, which is connected politically, in a way. When you get a change in your marketplace, for example in the way that people believe insurance should work – all the social pressures, interest groups and so on – it can change your historic pricing to be inappropriate going forward. Again, the question is how might this retrospective reinterpretation in your sales practice or your claims practice be reflected?

John Instance

Yes – or the charges on pensions policies.

Alan Joynes

Yes. All sorts of things like that. 10 years ago they were regarded as acceptable business practice.

John Instance

Finally, Alan, competitive pressure.

Alan Joynes

You identified two points: management actions and the balance sheet. On the balance sheet, we did not get very far with that, other than observing that probably playing smart with your balance sheet comes after you have failed to get the product to work, or because of frustrations of the shareholder, who will want to see the biggest possible return. Again, anything like an outlier – a very high rate of return – probably suggests something interesting is going on.

We did not get too excited about the management actions. We recognised that they have some importance. We were not really sure where they sit in the general insurance space. The charges were mentioned, and maybe a product priced with the belief that, 'If we cannot control the expenses, it is alright, we will put the charges up.' When the time comes if you put the charges up you get all the negative publicity, which then damages your business model going forward. Management actions are not a free pass to correcting past errors.

Our discussion kept coming round to a very old conventional concern about competitive pressure. It is the pressure that is then put on the straightforward pricing process: 'We need that pricing to be lower; therefore, we need your assumptions to go up. Go away and come back tomorrow with a better price'. It has been there all the time. It is still there, and it is probably not going to go away.

Another aspect of that is when you are pricing a product, is the data you have used directly applicable to that product, or is it some parallel piece of data about the another product? As people change products, past data are the never the right data for future products, which gives more scope for at least estimating where it should be, and being too optimistic. The other side of that is you keep prices the same and adjust the product and strip bits out, making a product that is not perhaps fit for purpose. There are other issues, so it is not directly an actuarial issue as to whether the price is right. The price is right for the product, but you might look at it and think: 'Is the product right for the purpose? Does it serve the right social purpose?'

On hotspots, our number one point was management pressure on assumptions. How do you identify an area that may be a subset of that bigger piece? How important is the actuarial work? Clearly, it is quite important in the dimensions concerned. You will notice that in Solvency II and current UK practice there is quite a lot of sign-off from the actuarial function across pricing and various other areas as well – risk mitigations and of course on capital. How well is the role of the actuary understood? Well, reasonably well here in pricing, and it has been going on a long time. If you like, the actuary analyses; the actuary may recommended, but, certainly in the UK setup, management decides, not the actuary. Perhaps also related to the point I was making earlier, the actuary has certain skills. There are lots of other skill sets involved in product design and pricing, whether it is the admin manager or the IT manager, the claims specialist or lawyers, or whatever. Echoing the earlier point, the actuary needs to establish a good network within the firm and outside to make sure the pricing is pricing the right thing.

In terms of potential mitigations, there is whistle-blowing. There was quite a lot of talk about comparing outliers. Certain regulators may well think the pricing is very expensive for what is going on, but equally the firm should ask itself, 'Am I an outlier? Am I being too competitive? How do I look compared with what we regard as a fairly sensible leader in the market? Am I just in a little group?' All of that falls back into corporate governance. Is the organisation set up with the right kind of governance? Apart from anything else, that gives the actuaries a certain amount of protection and right of representation.

John Instance

Can we extend that pricing example maybe into reserving? I suppose that is more in GI, where there is one-year pricing, so it is easy to respond on price. From my knowledge of GI, you see frequent reserve releases,. There can be pressure on actuaries to manage underwriting profit. It comes around to culture again, too. I suppose the analogy might be, say, Tesco or something like that, where there is quite aggressive treatment of revenue and accounting. Can you get similar pressures on the actuary in terms of reserving pressure? You have the auditor maybe to defend us, but does anybody else have any comments around competitive pressure?

Can I just open it up to a more general discussion on any of the four points we have discussed today or the wider issues that we raised in the risk perspective document?

Participant

Do we have maybe too high a fear of companies going bust? Is a company going bust in an ordered wind down, where funds are segregated and the customer has the policy for the duration but it is closed to new business, such a bad thing? It may be that we to try to make things go bust so rarely that, when they do, we have a massive correlation between companies and we can lose a large part of the industry at once.

Nick Dexter

Certain, from a regulatory perspective, we have said is it not a zero-tolerance to failure regime. There is a question of what the risk appetite is. Would government, HMT, be happy if a large company went down? The answer is 'no'. It is very topical, because in looking at the discussions we have been having on the Solvency II regime and in developing recovery plans, one of the things we have been thinking about in the working party on recovery planning I have been chairing is we are not expecting many companies to fail. However, going through the thought process of 'How could we fail, and what are the actions we would take on the way down?' gives you a much better chance of having a soft landing. There is a real trade-off. If you end up with a zero-tolerance regime, it is self-fulfilling, because you are going to end up with so much capital that the companies cannot trade, and therefore you either have to take aggressive policies and so on, and it gets very difficult. It is a fine line to tread. However, in the non-life sector, it happens quite often, and I was surprised – particularly if you go to the wider sphere, like credit unions, there are several a year, but because they are not big it is tolerated.

John Instance

Even in life insurance companies things change. The point about that was made earlier. The insurers that sold Child Trust Funds did not fail so much but their business model failed and they have now gone. It comes back to resilience. If you do only one thing, you are going to be more at risk if something changes; impaired annuity providers are more vulnerable now. Failure in itself is not a bad thing provided policyholders expect it, but shareholders are probably adversely affected; employees will also be adversely affected by their company failing. At a wider level, we should be intolerant, perhaps, of failure. Instead of saying we do not accept it, we should generally be intolerant of failure. I would have thought actuaries have a fairly key role in explaining to boards, who are ultimately responsible for the company, the risks they are running, the pricing of the products and the resilience of the business plan. The actuaries will be involved in the stress and scenario testing around that. As a profession, we have some professional responsibility to be intolerant of failure.

Participant

All of that suggests there should be a voice for the actuaries and a voice from the actuarial profession. Aside from whistle-blowing, we have talked about putting information out and promulgating debate, etc. I am not an actuary, so I just wonder whether it is easy for actuaries to find that voice in that space, or are there obstacles?

Andrew Hitchcox

I can probably help you there. There is a policy and public affairs committee whose job is to identify the key public priorities and then do our best to send out messages. We may have a press campaign. We may speak to the regulators. We may go to HMT. We review the list of key policy priorities, and then we have a reasonably structured attempt at getting that message out. Unfortunately, getting out the actuarial message is sometimes less sexy than some other topics, so we have to work hard at it. We put a lot of effort into it. There is a team for whom that is their full-time job.

Nick Dexter

I think we are still doing that, are we not, Andrew? I remember we did the horizon-scanning last year.

Andrew Hitchcox

Correct. Yes.

Nick Dexter

Each of the Practice Boards in each of the sectors of the profession feed into that process through that, and then obviously we have sitting on each of the Practice Boards 20 people from different areas of the industry, so in theory there should be a lot of information being channelled up.

Andrew Hitchcox

I know I should not make points on the hoof, but it seems to me that we should make that more visible to folk. I am going to suggest to Paul Reynolds that our key policies are published on the website, for example. They are not secret. I have debated them at length. I have gone to other shared boards. It is not quite a strategy; it is subtly different from a strategy, but it underpins our communication strategy and we renew it once a year.

Nick Dexter

I do not know about anybody else in this room, but to try to find stuff on the website –

Andrew Hitchcox

That is a separate question.

John Instance

Following on from Andrew's point, we have recently conducted a survey of confidence in actuarial work and actuaries, and what comes out of it is – it is a bit of biased survey and it is about people who know about actuaries, so insurance executives and pension fund trustees, auditors and people like that – the profession has a very high reputation for integrity and competence, and I would argue that is probably a good place to start from in terms of making statements and being believed, or having people trust the messages that might come across.

I am conscious of the time. Thank you very much. I would like to thank our four table leads: Andrew Hitchcox, Kim Durniat, Alan Joynes and Nick Dexter. The consultation closes on 20 February, so if you do want to write in with something, we would be very pleased to receive it. We have your comments captured today, so thank you very much. They will be fed into our thoughts. We are going to gather that feedback. Natasha Reagan, who is sitting over there, is going to be collating it all and we plan to publish a feedback statement in June this year. We will be using that to guide our future work within JFAR, and some of you will know that we are consulting on our TAS Framework at the moment, and some of the input will no doubt see the light of day in some future actuarial standards – maybe – or changes to our existing standards. Again, thank you very much.

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