

The following response is my personal view as an individual actuary.

(A) Governance and corporate culture - independence management plans

As discussed today, the discussion paper highlights a number of times the potential conflict between business interests and the public interest.

The paper rightly indicates that actuaries have to manage this conflict.

It will be important to create a culture and governance structure where actuaries can manage this potential conflict effectively.

The Actuaries' Code contains an Impartiality Principle which includes conflict management plans.

I do not believe conflict management plans typically anticipate conflicts between:

- the Principal's interests (whether employer or client of the actuary)
- an actuary's personal "career" interest.

I would like to explore creating guidance with examples of protocols to manage the risk of undue pressure on the independent judgement of actuaries.

This can include processes for sanctioning or removing actuaries in key roles - following the lead of the FCA and PRA for the banking industry.

It can include effective internal "speaking up" lines where the people involved are charged with supporting concerns - right up to Board level where the Chair of the appropriate committee (typically the Risk Committee) is required to be an independent NED and is personally accountable for heading off inappropriate pressure on key functions.

I agree with Melanie that the existing FRC corporate governance code should work because it relies on pressure from stewardship to ensure that Boards adopt the right culture and governance.

I fear that, at times when conflict pressures reach a crisis, the FRC corporate governance code may not operate in the right timescale if there is a lapse in governance.

Actuaries need to know what to do when faced with inappropriate pressure - in extremis immediately involving the accountable Main Board NED.

This can work best if those wishing to apply inappropriate pressure are aware of an "Independence Management Plan" which contain mandatory protocols to speak up if necessary to the accountable NED.

Arguably this Independent Management Plan is already required as a Conflict Management Plan under the Actuaries' Code. I am not aware of any actuary explicitly seeing "Independence" in this way, or of any Conflict Management Plan that directly addresses inappropriate pressure from the Principal.

Given this issue of inappropriate pressure applies to all key functions, not just those held by actuaries, it might be sensible to develop guidance applicable to all professions and all key functions.

Having a uniform culture to handle inappropriate pressure across all corporate expertise is likely to gain most traction, because all colleagues are working to the same protocols.

(B) Wider areas involving risk to the public interest where actuaries are involved

The focus of the discussion paper is on well-established areas where the FRC/PRA/FCA/tPF regulators are involved.

It would make sense to consider wider areas involving risk to the public interest where actuaries are involved, not least because such areas can emerge in the future within regulated businesses.

An example is actuarial work in healthcare where actuaries can build financial models to demonstrate the financial returns obtained through greater healthcare intervention today and improved health outcomes in the future.

Long term disease management and the elimination of avoidable cases of stillborns and brain damaged babies are two healthcare examples where the public interest can be served. Actuaries can promote the healthcare opportunities where great value can be added, serving the public interest. Having been one of those actuaries, my view is the risk of failing to act in the public interest falls as much on the culture and risk management of healthcare providers as it does on the communication abilities of actuaries.

(C) Education of actuaries

There is now available a great opportunity to implement the Morris Review education recommendations more effectively.

Key universities are launching new programmes that are capable of educating future actuaries and retraining existing actuaries in new fields such as business data analytics. Imperial College Business School (where I have been Programme Director of the part-time Actuarial Finance Masters programme) allows its postgraduate students to broaden their learning by taking courses which are outside the IFoA syllabus. Courses offered to actuarial trainees in the past have included Banking, Credit Risk, Advanced Corporate Finance, Structured Products, Hedge Funds, Private Equity and Venture Capital.

The Imperial Actuarial Finance programme has evolved with innovation in mind. All students take courses in Advanced Enterprise Risk Management - with some studying further topics in ERM covering areas such as Bayesian networks. Bayesian networks allow models to be developed that combine the traditional analysis of past data with expert views of causal events that are so infrequent (or have not yet emerged) that they are missing from the data. It is difficult to see how actuaries can realistically make judgements of 1-in-200 Solvency II capital requirements without using techniques to capture events missing from past data; nor can they build causal models which may make more sense to non-experts than the non-causal correlations in standard statistical analysis.

In my view, it is crucial that the IFoA adopts a more flexible and innovative approach to accrediting universities, giving actuarial trainees the opportunity to learn the key skill of independently learning new skills as they emerge with increasing rapidity. University programmes are well placed to achieve this, enabling newly qualified actuaries to bring to the Actuarial Profession cutting edge skills in emerging areas.

It will be worthwhile to investigate the governance structure used to accredit universities to improve the innovation and flexibility through shared governance, treating universities as partners rather than education suppliers.

A key governance issue is the conflict between the IFoA as provider of exams and the IFoA as competitor to accredited universities that provide students with exemptions from the IFoA exams.

With kind regards

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