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Dear Ms Regan

**Subject: JFAR Discussion Paper: A risk perspective**

Thank you for the opportunity to comment on the Joint Forum's thinking on UK public interest risks to which actuarial work is relevant.

We welcome the paper which has, in the main, fairly presented the high level public interest risks to which actuarial work is relevant. We comment below on a few of the specific areas covered. We would like to also make some general comments:

We feel that actuaries have contributed and can continue to contribute, through their specialist analysis and professional approach, to good decision-making in a wide variety of areas of business and public life, some more familiar and traditional than others. A major risk is that significant decisions are taken based on inadequate, flawed or limited analysis and such a risk might materialise if actuarial input were to be inhibited in some way.

We particularly support the viewpoint that there are a number of approaches to dealing with the issues, not necessarily using regulation, and in particular recognition that education has a key role here. Indeed, perhaps considering what the best approach is for any of the risks identified is critical.

We are concerned, therefore, at the possible implication from the work that JFAR is doing that the actuarial contribution to often complex and multi-disciplinary work becomes disproportionately and possibly even over-regulated. **We are accordingly inclined to disagree with the statement (see page 8) that regulation (including actuarial regulation) is not proposed as a risk.** Whilst the paper does recognise that regulation can exacerbate issues arising from the risks, we would see that the risk arising from regulation is wider. In particular over, or poor, regulation can work counter to its aim and encourage introspection by actuaries rather than a focus on those ultimately impacted by their work. Whilst this does not necessarily need to be identified as a generic risk within the framework, we feel it is vital that it is assessed alongside each risk together with other possible solutions, such as education (both of, and by, actuaries).

In addition, we note that identifying areas that actuaries are involved in and where there are risks in those areas, is not the same as identifying actuarial risks. There is a big danger in work of this nature that the default mitigation is regulation, and in particular regulation of actuaries, which may be very far from the best response.

We also have comments on some of the generic risks presented in the document.

## **Modelling**

We agree that, because models are so fundamental to actuarial work, they must be considered as a generic risk associated with that work and that, in effect, there is a risk associated with familiarity or false comfort in their use. Indeed, perhaps some of the hotspots are actually more generic than presented. For example, the hotspot relating to general insurance personal lines pricing applies in other situations, where models are used to present results in new areas of operation to those familiar with the outputs associated with models in other areas. Furthermore it would also be helpful to recognise the “fitness for purpose” risk associated with models adapted by actuaries for use in areas other than that for which they were originally designed, but without a full understanding of the model. Of course we are not seeking to imply that such an adaptation is necessarily inappropriate.

## **Group Think**

Whilst we agree that there is a risk from complacency or insufficient research and horizon scanning for the work in which actuaries are involved, we think this risk is badly described as “group think”, which is a pejorative term. There are many examples where consensus within a professional body such as actuaries can be extremely helpful and indeed act as a risk mitigation.

However, we do recognise the risk of “dumbing down” the professional contribution that actuaries can make. In a market where actuaries are increasingly competing against other experts advising in fields in which actuaries have traditionally operated, or where other experts could usefully have a role going forward, how can actuaries retain what is unique to their role (the professional element) without falling into the traps outlined in your paper? We believe this is an important area as it impacts across all spheres of actuarial operation. The answers here are not simple and will continue to be challenging to both regulators and individual actuaries. Without action, the skills of actuaries may increasingly be overlooked in favour of these other experts.

Whilst there are areas where other experts can undoubtedly bring something extra, it is important that actuaries do not become complacent as, in addition to their technical expertise, their public interest focus should help ensure a better overall “outcome”.

A balance must be struck between the encouragement of good professional standards that take account of modern conditions and the flexibility to think and behave more laterally in certain situations. Whilst clearly actuaries should be accountable for their advice, and there should be appropriate checks and balances, any undue fear of action, whether disciplinary or legal, can potentially drive actuaries to become unduly cautious.

Regulators will need to consider whether regulation is proportionate or is tending to encourage group think, and indeed the disciplinary scheme may also need reviewing. Education will also be critical and the employers of actuaries will also have a key role in this.

## **Rapid Change in the Pensions Market**

Any period of rapid change poses risks both to the affected markets and to those who may seek to take advantage of the change. It would seem more appropriately “generic” to further generalise this risk as “significant or rapid change owing to legislative developments and new initiatives that lead to inappropriate or unforeseen outcomes.”

As behavioural impacts are often hard to predict with accuracy the impact of the change can often be over or underplayed and that is undoubtedly true when considering the forthcoming changes in the pensions market and in particular those stemming from the Taxation of Pensions Act.

The paper identifies these legislative developments as a hotspot, although the mitigations perhaps should go further than the “explanation” role identified for actuaries, particularly bearing in mind the possible economic implications. Actuaries may be in a position to identify risks or behaviours, such as the adequacy (or otherwise) of member advice, and to speak up or help to educate the public, or those able to influence their decisions. Furthermore, actuaries may also be formally or informally part of the policy development process and therefore well-placed to influence good outcomes.

Please do let us know if you would like to discuss any of these comments in more detail or would like to discuss further any of the aspects of the work of the Forum.

Yours sincerely

A handwritten signature in black ink, appearing to read 'C. Wilson'.

**Colin Wilson**  
Deputy Government Actuary