

**Minutes of a meeting of the Actuarial Council held on Tuesday 22 September 2015 at the FRC
Office, 8th Floor, 125 London Wall, London EC2Y 5AS**

Present:

Olivia Dickson	Chair of Council
Rosemary Beaver	
Martin Burke	
Ashok Gupta	
David Hindley	
Howard Jacobs	
Joanne Livingstone	
Martin Miles	
Dominic Veney	

Observers:

Des Hudson	Institute and Faculty of Actuaries (IFoA) (from minute 2)
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In attendance:

Siân Barr	Project Director, Actuarial Oversight (to minute 3)
Francesca Carter	Council Secretary
Faye Dyce	Project Director, Actuarial Policy Team
Robert Inglis	Project Director, Actuarial Policy Team
John Instance	Interim Director, Actuarial Policy Team
Melanie McLaren	Executive Director, Codes & Standards
Ann Muldoon	Incoming Director, Actuarial Policy Team
Natasha Regan	Project Director, Actuarial Policy Team

Introductions and apologies for absence

The Chair welcomed Martin Burke and Dominic Veney to their first Council meeting. The Chair also welcomed Ann Muldoon, incoming Director of Actuarial Policy.

Apologies were noted from Keith Barton and Angela Darlington (Council Members).

Private session

1. The Council met in private session to discuss the findings of a review of the FRC's actuarial role.

Public session

2. **Executive report**

- 2.1 John Instance (JI) introduced a report that provided an overview of FRC activities relevant to the remit of the Actuarial Council not covered elsewhere on the agenda. The Council considered and noted the report; particular emphasis was given to the following matters:

Influencing International standards and regulation

Actuarial Association of Europe (AAE)

- 2.2 The Council noted a response submitted to the AAE on its exposure draft of ESAP 2: Actuarial Function Report under Solvency II, and a response on ESAP3: Actuarial practice in relation to the ORSA process under Solvency II. The Council also noted that the AAE has prepared a draft terms of reference for a task force for a model standard for independent review by an actuary of another actuary's work (ESAP 5). The Council discussed the developments and highlighted the importance of ensuring the FRC seeks to influence the AAE's deliberations. The Council welcomed that Natasha Regan (NR) would be attending the AAE's autumn meeting of the Standards, Freedom and Professionalism Committee September at which ESAP 2, ESAP 3 and ESAP 5 will be discussed.

September JFAR meeting

- 2.3 The Council noted that the JFAR met on 8 September and discussed in detail a paper prepared by the FCA that considered the role of actuaries in product development. JI highlighted that the paper, which drew on the JFAR risk perspective, brought out the need for greater transparency in respect of product pricing and greater flexibility, recognising that customers' needs will change over time, and that longer-term contracts should not trap customers through unreasonable surrender penalties.
- 2.4 The Council discussed a request from the FCA for the FRC and the IFoA to consider what might be done to encourage actuaries involved in product development to raise any issues they have identified in the advice they give to decision makers. Through discussion it was suggested that:
- The FRC should undertake a gap analysis to review what existing standards and / or guidance documents are already in existence before a decision is taken as to whether there is a need for further standards and / guidance in this area.
 - The FRC should avoid issuing additional standards / guidance – if the gap analysis concludes that there is a need to issue further material the FRC and IFoA should consider issuing thought leadership / education pieces or consider cross referencing the ethical standards in the TASs.
 - The FRC should explore whether the extent to which compliance with the Actuaries' Code and the IFoA's ethical standards addresses the FCA's concerns in respect of unreasonable surrender penalties given that the matter is relevant to ethics and the mindset of the individual.

GI Reserving

- 2.5 The Council received an update on the JFAR review of General Insurance (GI) Reserving. It was noted that:
- The PRA has agreed to share 17 reserve reports for review by the FRC.
 - Two roundtable events have been held, with discussions involving both actuaries working in audit teams and insurance auditor partners. Key themes arising from the events are that there can be a lack of understanding of the actuarial role by both the

actuary and the audit partner; and, as actuaries are not trained auditors there are knowledge gaps which could be resolved through additional training.

- A gap analysis of the risks relating to general insurance reserving against the TASs and, where relevant, the Solvency II requirements has been undertaken by the FRC to inform the FRC's review of the Insurance TAS.

2.6 The Council discussed the gap analysis in detail, the following observations were made and advice was given:

- The Council noted that two key areas of risk had been identified:
 - i. Increasing time pressures on actuarial work in reporting; and
 - ii. Suitability of the model / information and data used / results.
- The Council noted that the gap analysis would be tested against the review of the 17 reserve reports.
- Whilst it was noted that there is a link between the quality of reporting and the output of a piece of work, the Council suggested that the FRC should, as far as is possible, seek to review the quality of the output rather than the quality of reporting. It was suggested that if this cannot be achieved the FRC should be clear that it is the process and quality of reporting that has been subject to review and not the quality of the output.
- The Council queried whether the IFoA practising certificate regime should be considered as part of the gap analysis.
- The Council expressed concern that a number of the proposed mitigations could add to the burden of increasing time pressures and highlighted the need to be proportionate. In response JI confirmed that the recommendations set out are at the early stage of development and will be subject to further discussion and consideration.
- Whilst it was noted that the majority of proposed mitigants is the provision of guidance, which would be non-mandatory, the Council suggested that, in practice, actuaries consider guidance to indicate a requirement. Accordingly, the Council highlighted that evidence of the need for further guidance, and that an impact assessment would be still be necessary. MM confirmed that the development of any Code, Standard or Guidance would be subject to assessment against the FRC's principles.
- It was noted that it is uncertain whether the current pressures on actuaries will continue once Solvency II has embedded. It was suggested that, should the pressures reduce there may not be a need to address the issue.
- The Council supported the proposal that it would be useful to consider the inclusion of a requirement to report on actual experience against assumed experience, and to communicate future expected cash flows in the specific Insurance TAS.
- The Council suggested that the threat associated with a low interest rate environment should be reframed to reflect the threats that arise from the economic environment.
- The Council suggested the FRC be confident to state that for some threats there is no need to take action, or that there is no possible action that can be taken.

2.7 The Council requested the opportunity to reflect on the recommendations once they have been developed further.

Group Think

2.8 Des Hudson (DH) provided an update on the IFoA's review of Group Think. The Council noted that the JFAR is content with the proposed methodology and that the IFoA has

established a working group to progress the review. The Council welcomed the in-depth and structured approach to the review.

- 2.9 The Council discussed the four drivers identified by the IFoA and made a number of suggestions for the IFoA to consider, including, consideration of the impact that 'corporate structure and cultural mind set' plays in driving group think and the impact 'thought leaders' play. The Council also suggested that the IFoA may wish to explore the extent to which group think extends to the production of management information, highlighting that Solvency II requires the presentation of important information in a grid. The Council suggested that requirements relating to the presentation of management information can mask the actuary's voice and limit their ability to fulfill their role.
- 2.10 DH thanked the Council for their input and noted that a report to the JFAR could be expected in due course.

3. Scope of the Specific Technical Actuarial Standards – risk assessment process

- 3.1 The Council discussed a paper that set out an updated risk assessment process and a risk assessment analysis of actuarial work in insurance, pensions and funeral plans. The Council noted that the risk assessment process had been updated to reflect the comments made by the Council at its July meeting and that the updated process had been used to inform the analysis set out in the paper. Through discussion it was clarified that the risk assessment process would be used to identify the level of risk to the public interest relating to actuarial work. The Council supported the updated risk assessment process and confirmed the revisions respond to the views expressed by the Council at the July meeting.
- 3.2 The Council was invited to comment on the risk assessment analyses. It was noted that the assessments take account of:
- The impact on the public interest if poor decisions are made as a result of poor quality actuarial work;
 - The likelihood of the actuarial working being of insufficient quality
 - The level of involvement of actuaries and the actuarial skills required to perform the specified actuarial work.
 - Existing mitigants, including TAS 100, accordingly the risk assessments can be considered as net.

Through discussion the following observations and suggestions were made:

- 3.3 Insurance
- It was noted the insurance specialists on the Council had reviewed the analysis.
 - The Council supported the positioning of material for ORSA as high impact and medium probability on the basis that a high number of mitigants are already in place and there is limited scope for introducing further mitigants.
 - The Council supported the positioning of work to support estimating capital requirements using the Solvency II standard model as high impact and medium-high probability, and the positioning of work to support internal model risk modelling as high impact high likelihood on the basis that the current level of scrutiny cannot be sustained and the score will 'future proof' against the risk.

- The Council advised that the analysis be split between general insurance and life insurance on the basis that some assessments will vary depending on the function, for example, risks associated with work to support the re-pricing of reviewable rate products and risks associated with providing opinions on reinsurance arrangements. The Council suggested that expert advice should be sought on the risks associated with work to support the re-pricing of reviewable products.
- The Council suggested that the impact of Lloyd's reinsurance to close should be at least medium-low (rather than low)
- The Council suggested that it would be helpful to explain what is captured under the scope of M&A work.
- The Council supported the assessment of the other areas of insurance-related actuarial work as set out.

3.4 Pensions

- It was noted that the pensions specialists on the Council had reviewed the analysis.
- It was noted that 'herding' has been captured in the analysis as a strategic investment risk and scored as having a 'medium-low' probability on the basis that actuarial involvement is not considered to be central to the work.
- It was clarified that potential risks arising from accounting standards were excluded from the analysis on the basis that accounting standards prescribe the approach to be followed.
- The Council supported the inclusion of work of the PPF actuary and the GAD Quinquennial Review of the National Insurance Fund on the grid and the assessment of both areas of work as high impact and medium high probability.
- The Council supported the assessment of public sector funded schemes as high impact and high probability on the basis that public sector schemes are not as heavily regulated as privately funded schemes, nor are they subject to the Pensions Act 2004.
- The Council supported the positioning of work in respect of the commutation factor calculations on the basis that this is a high profile area, work in this area is of high public interest and risk has increased as a result of the recently introduced pension freedoms.
- The Council suggested that work in relation to buy-outs should be repositioned as medium-high probability and medium-high impact.

3.5 Funeral plans

- The Council supported the assessments made in respect of actuarial work on funeral plans.

3.6 Whilst the Council was in general support of the initial assessment the Council suggested further probing and testing is required. The Council also suggested that it would be helpful to expand appendix 3 to provide more detail on how the assessments have been reached and to colour code the grids in appendix 2.

3.7 The Council discussed in detail where the line should be drawn for determining whether aspects of actuarial work should be included in the scope of the specific TAS. Following considerable debate, including consideration of what would fall in and out of scope depending on where the risk appetite is set, the Council concluded that for actuarial work to be within the scope of a specific TAS it must be scored as being:

- i. high probability and high impact; or
- ii. medium high probability and high impact;
- iii. high probability and medium high impact;
- iv. medium high probability and medium high impact.

3.8 In reaching this conclusion the Council highlighted that:

- All actuarial work, including reserved work, will be subject to TAS 100.
- A 'high' probability score would only be given where the actuarial input or the use of actuarial techniques is considered to be central to that work.
- That the 'light touch' approach is consistent with the FRC's approach and the de-regulatory stance of current government.
- The approach reflects the hypothesis that the FRC can de-regulate and that this risk assessment process enables the FRC to do so with integrity and confidence; any discomfort or uncertainty would always be challenged.

3.9 MM reported that the CSC would be considering the initial conclusions of the risk assessment analyses and the FRC's risk appetite in respect of the scope of specific TASs at its meeting on 7 October. MM confirmed that she would report the views expressed by the Council to the Committee.

4. IFoA Observer Report

4.1 The Council noted a report that provided an update on the activities of the IFoA since the last meeting of the Council.

4.2 Des Hudson (DH) highlighted that, according to their assessment, a number of actuaries eligible for registration for compulsory practising certificates in the life and non-life insurance practices areas for IFoA members that hold, or plan to hold Chief Actuary positions in organisations subject to the Solvency II regime had not yet registered. DH reported that the IFoA have alerted the PRA to this and that the PRA do not consider this to be an immediate concern.

5. Minutes of the previous meeting and rolling actions

5.1 The minutes of the Council meeting held on 28 July 2015 were approved for publication.

5.2 The Council noted the rolling action log.

6. Forward agenda

6.1 The Council noted the forward agenda.

7. AOB

7.1. There was no other business