

**Minutes of a meeting of the Actuarial Council held on Tuesday 6 May 2014 in the Boardroom at Aldwych House, 71-91 Aldwych, London, WC2B 7HN**

**Present:**

Olivia Dickson	Chair of Council
Keith Barton	
Rosemary Beaver	
Martin Bradley	
Ashok Gupta	
David Hindley	
Howard Jacobs	
Joanne Livingstone	
Martin Miles	

**Observers:**

Jane Curtis	Institute and Faculty of Actuaries (IFoA)
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**In Attendance:**

Siân Barr	Project Manager, Actuarial Oversight, FRC
Francesca Chittenden	Council Secretary, FRC
Faye Dyce	Project Manager, Actuarial Policy, FRC
Robert Inglis	Project Director, Actuarial Policy, FRC
John Instance	Project Director, Actuarial Policy, FRC
Melanie McLaren	Executive Director, Codes & Standards, FRC
Natasha Regan	Project Director, Actuarial Policy, FRC

**Welcome and Apologies for absence**

Apologies were noted from Angela Darlington (Council Member), Paul Johnson (Council Member) and Lee O'Rourke (HMT Observer).

The Chair welcomed Rosemary Beaver to her first meeting as a Council Member.

**1. Update on FRC Board and Committee discussions on actuarial matters**

- 1.1 Melanie McLaren (MM) confirmed that the FRC Board, at its meeting on 9 April 2014, had approved the FRC plan for 2014/15. MM informed the Council that the Board had considered the development of the shared actuarial risk map and was content with the way in which it was progressing.
- 1.2 MM reported that the Codes & Standards Committee (CSC) at its meeting on 30 April had considered the actuarial work plan underpinning the FRC plan, and following confirmation that sufficient resourcing was available, had endorsed the actuarial work plan. MM also reported that the CSC had considered that the plan was suitably designed to enable the FRC to be responsive to the changing environment.

- 1.3 It was also noted that the CSC had discussed the actuarial standards framework consultation, paying particular attention to the definition of actuarial work, and was generally content with the proposals.
- 1.4 The Chairman (OCD) reported that Sir Win Bischoff had begun his term as Chairman of the FRC Board on 1 May and that Gay Huey-Evans had begun her term as Deputy Chairman of the FRC Board, also on 1 May.

## **2. FRC actuarial standards consultation**

- 2.1 Robert Inglis (RI) introduced the latest draft of the consultation paper and informed the Council that the version presented reflected discussions held with the standards framework working group (the 'working group'), the CSC and the IFoA Regulation Board. RI stated that definitions to support the Technical Actuarial Code (the 'TAC') and the Technical Actuarial Standards (the 'TASs') would be provided in a separate glossary.
- 2.2 The Council were invited to comment on the proposed approach to the scope and application of the TAC, specifically the definition of 'actuarial work'. OCD highlighted the importance of ensuring the scope of the proposed TAC has been thoroughly tested and that significant streams of work, which could potentially fall within the scope of the TAC, had been considered. The Council supported the use of the term 'principles and techniques of actuarial science' and noted that "actuarial science" is used in the IFoA charter. The Council also noted that the use of the term allows for new approaches resulting from the development of actuarial science to be captured.
- 2.3 The Council considered that a key issue in determining for an actuary whether or not a piece of work would fall within the scope of the TAC is the capacity in which the actuary is undertaking the work. The Council noted that in some instances the capacity in which the actuary is undertaking a piece of work may be 'unclear' and accordingly, suggested that the framework should highlight the importance of seeking clarity on the capacity in which the work is being undertaken. The Council considered the case of a non-executive director, who is also an actuary, participating as a board member. The Council considered that this should be outside of the scope of the TAC. The Council suggested that this scenario should be made clear in the consultation. The Council discussed whether there is a need to amend the definition of scope to refer to work undertaken in a 'professional capacity' or to refer to the 'formality' of the situation, and concluded this was unnecessary.
- 2.4 Through discussion the Council identified a range of activities and scenarios that should be tested to determine whether or not they would fall within the scope of the TAC, and be included as examples in the consultation documentation. Examples of areas of work to be considered included risk related roles such as Risk Committee Chair. The Council noted that the team would test the various examples of work with the working group and that examples, for inclusion in the consultation, would be brought to the Council at its June meeting for consideration. RI asked Council to submit further examples of activities and scenarios by email by 31 May.

- 2.5 The Council noted that the working group had suggested that the FRC should not consult on the criteria for deciding on actuarial work to be subject to specific technical actuarial standards. High level criteria are essentially set out in the FRC principles for developing codes and standards published on the FRC website. Beyond that, criteria would flow in due course from the actuarial risk map process but this was insufficiently developed at this stage. The Council endorsed the suggestion and considered it sufficient to include a statement in the consultation material to set out the principle that TASs will be developed to address areas of work that the FRC has assessed as being of potential risk to the public interest. The Council noted that, as a result of the decision not to consult on the criteria, section 6.3 of the draft presented would be removed. The Council requested that sections 6.7 and 6.8 of the consultation draft be revised so that it is aligned with the wording in relation to the risk map that is set out in the 2014/15 FRC plan.
- 2.6 Subject to the comments made, the Council agreed the proposed approach to the scope and application of the TAC and that the FRC should not consult on the detailed for criteria for including work in TASs, noting the consequential change to the title of the consultation. The Council noted that a final draft would be brought to the Council for an advice decision in June.

### **3. Actuarial standards framework – FRC & IFoA statement**

- 3.1 RI introduced the latest draft of the statement by the FRC and IFoA. RI informed the Council that, on the advice of the working group, and following discussion with the IFoA, the title of the statement had been amended to take out the word 'joint'. MM reminded the Council that the CSC had expressed some concern that a 'joint' consultation with the IFoA could be seen to undermine the perception of the FRCs independence from the IFoA, and accordingly, the revised title and approach would be welcomed by the CSC.
- 3.2 The Council noted that one recommendation from Project Capri was that the Memorandum of Understanding (MoU) between the FRC and IFoA should be amended to note that the FRC holds a reserve "power" to set ethical standards. The Council agreed that the MoU should ideally be updated before the joint statement is issued. However if this was not possible the intention to update should be referenced.
- 3.3 The Council noted that a final draft of the statement would be brought to the Council at its June meeting.

### **4. Annuities – Gap analysis**

- 4.1 John Instance (JI) introduced a report which set out an analysis of whether risks and the 'theories of harm' relating to annuities which are strongly linked to actuarial work are appropriately dealt with in the existing TASs and the proposed Actuarial Standards Framework. JI reported that the JFAR had identified 'annuities' as a risk hot spot and that a thematic review conducted by the FCA had indicated that some parts of the annuities market are not working well for some consumers. JI also reported that, as a result of changes proposed in the 2014 Budget, the work

undertaken by actuaries in relation to annuities might change and these changes would need to be monitored.

- 4.2 The Council considered a list of areas of annuity-related work undertaken by actuaries; whilst the Council considered the list to be comprehensive, it was suggested that work relating to asset management and risk reporting should also be included. The Council highlighted that actuaries are increasingly being asked to provide advice on issues, such as adverse selection.
- 4.3 The Council noted that the gap analysis had identified that whilst most actuarial work related to annuities is within the scope of the current TASs, some work, such as reinsurance and cash-flow projections is not. Martin Bradley (MB) indicated that actuaries were increasingly involved in considering asset cash-flow projections as part of hedging strategies. The Council also noted that consideration will need to be given to whether or not actuarial work concerning discount rates, sparse data and the treatment of policyholders in a business transformation would need to be included in a “new” insurance TAS.
- 4.4 The Council concluded that there was no immediate need to act in response to the findings of the gap analysis; however, the Council suggested that the analysis should be refreshed following the conclusion of the FCA market study into retirement income.

## **5. IFoA consultation on practising certificates (Solvency II)**

- 5.1 Jane Curtis (JC) provided an update on the status of the IFoA consultation on practising certificates under Solvency II; she commented that 62 consultation responses had been received so far. The Council noted that the IFoA had identified, and presented, a range of options for the approach to the regulation of the actuarial, risk management and internal audit controlled roles falling under the Solvency II regime.
- 5.2 The Council noted that FRC staff had communicated the Conduct Committee’s view to the IFoA that the practising certificate regime should be extended to the Actuarial Function role under Solvency II.

## **6. Pensions landscape**

- 6.1 RI introduced a suite of papers summarising proposed changes to the pensions landscape and setting out draft FRC responses to two consultations.
- 6.2 The Council were invited to comment on the implications of the various proposals for the actuarial profession, pension scheme members, the FRC and other regulators. Through discussion the following observations were made:
- The Council highlighted that the objectives of the budget proposals are to provide greater choice and flexibility, and accordingly, there is likely to be an increase in actuarial work in response to an increased demand for:
    - Advice and guidance to individuals on the options available to them;
    - Advice to scheme trustees;

- Advice to pension scheme sponsors;
  - Advice to trustees on communications to scheme members; and
  - New, innovative retirement income products to be developed and designed.
- Mixed views were expressed as to whether the new environment should be heavily regulated and if so whether this would inhibit innovation.
  - A number of implications were identified for scheme members in relation to the HMT proposals. The first is the apparent shortfall in the funding allocated for the provision of face to face guidance which could result in members receiving insufficient and poor quality information to inform their decisions, and the second relates to the fact that guidance will only be offered at retirement when individuals may require advice before they reach retirement age to inform their investment decisions and after retirement as they draw down funds. A third issue relates to the proposal to ban transfers from DB pension schemes to DC pension schemes, which could be considered unfair and restrictive.
  - It was highlighted that as a result of the uncertainty of the proposed changes actuaries are in a 'limbo' situation and may be asked to provide advice on a scheme, which may no longer be suitable in six months time. It was suggested that there are ethical issues and issues in relation to adverse selection risk in relation to annuities; both of which may have implications for the actuary and pension scheme trustees.

6.3 The Council discussed whether or not any immediate action was required in response to the proposals and whether the FRC should be more active in promoting the work of the actuary in the new environment. However, the Council suggested that, given the level of uncertainty as to what new environment will be and the extent of the implications of the new environment for the actuary, the Council did not consider that any immediate action would be appropriate. Accordingly the Council considered that the FRC should take a reactive role, responding to consultations and acting to promote the role of trustworthy actuarial information when opportunities arose to do so. .

#### 2014 HMT Budget pension proposals

6.4 The Council noted the draft response to the HMT Consultation and the accompanying cover letter. The Council welcomed the emphasis in the cover letter on a need for a fundamental review of pension communications. The Council suggested that the wording be reviewed to place greater emphasis on the role the JFAR will play in identifying potential risks.

#### DWP Paper: Better workplace pensions: further measures for savers

6.5 The Council endorsed the draft FRC response to questions raised in the paper that supported the DWP's approach to improve the governance of pension arrangements.

#### IORP Directive

6.6 RI provided a high level summary of the draft IORP Directive. He confirmed that whilst the requirements appear less onerous than many had feared, changes to the administration and governance of pensions schemes, such as more risk assessment, may increase costs for DB schemes, particularly smaller ones. RI also reported that

whilst Solvency II style capital requirements do not appear in the current version, they could be reintroduced at a later stage.

- 6.7 The Council noted that a key feature of the Directive is the proposal to require a two page benefit statement which would replace the current Statutory Money Purchase Illustration (SMPI). RI reported that the development of such a statement could be considered ambitious. The Council noted that the intended implementation date of the Directive for Member States is December 2016 but that a UK Pensions Act would be required before implementation.
- 6.8 MM confirmed that the FRC would be developing a UK influencing strategy with other regulators and government, and that a report setting out the FRC's high level position in response to the proposals would be presented to the Council at its June meeting.

#### AS TM1 – implications of legislative changes and 2014 review

- 6.9 The Council noted that the introduction of the new IORP Directive would have significant implications for Statutory Money Purchase Illustrations (SMPIs), as SMPIs would be replaced by the two page benefit statement referenced above. The Council also noted that with the introduction of the statement it is likely that there would no longer be a need for AS TM1; however, there may be a need for member state rules or guidance on assumptions and methods to be produced. MM confirmed that given the FRC's role in setting AS TM1, the FRC would wish to continue to influence any such rules or guidance.
- 6.10 The Council considered that, despite the limited life of AS TM1, it is important to ensure that AS TM1 remains fit for purpose, particularly in light of the changes in the Budget pension proposals. The Council also noted that it is important to ensure AS TM1 is fit for purpose in case of any delay in the implementation of the IORP Directive.
- 6.11 In conclusion the Council agreed that the 2014 review of AS TM1 should go ahead as had been envisaged and that the FRC should continue to work with the DWP, FCA and the IFoA to consider how regulations for DC pension scheme disclosure should be amended in light of the 2014 budget changes.

### **7. Independent survey of confidence in actuarial work and the profession**

- 7.1 Sian Barr (SB) introduced a paper which included a draft tender document for the FRC's biennial survey of confidence in the quality of actuarial work, giving the Council an opportunity to input questions which could be included. The Council noted that the primary purpose of the survey is to assess the level of user and practitioner confidence in the relevance, clarity and reliability of actuarial information, and in the competence and integrity of the actuarial profession in the UK.
- 7.2 The Council noted that a number of core questions are asked in every survey with minimal changes in order to provide direct comparisons with the findings of previous surveys and to develop trend data. The Council also noted that a small number of additional questions may also be asked to achieve secondary objectives of identifying:

- the impact of changes to FRC Standards Framework (also establishing a benchmark against which amendments to the Standards can be assessed);
- the impact of regulatory initiatives by the IFoA;
- priority areas for the development and maintenance of technical actuarial standards and the regulation of actuaries; and
- Whether there is a need to change the FRCs Actuarial Quality Framework.

7.3 The Council supported the primary and secondary objectives of the biennial survey and suggested that the first line of the draft tender document should be amended to refer to a “survey of *the perception of* actuarial quality”.

7.4 The Council noted a summary of the Actuarial Stakeholder Group’s discussion on the survey and highlighted the importance of ensuring pension trustees and company directors are invited to complete the survey. The Council suggested that it would be helpful if a more detailed analysis of the responses to the next survey set out by type of respondent, were shared. A summary of previous surveys’ findings was included in the draft tender document, broken down into some of the categories of respondent. It was clarified that the “Insurance directors” statistics shown here combined the executive and non-executive director categories. The Council noted that the findings of the next survey be reported back to the Council.

## 8. **Team report**

8.1 The Council noted the report and commented on the broad range of activities and work the team were involved in.

## 9. **Institute and Faculty of Actuaries (IFoA) observer report**

9.1 The Council noted the report.

## 10. **Report of the ASG meeting held on 24 March 2014**

10.1 The Council noted the report.

## 11. **Minutes of the Actuarial Council meeting held on 18 March 2014 and rolling actions**

11.1 The minutes of the Actuarial Council meeting held on 18 March 2014 were approved as an accurate record of the meeting.

## 12. **Actuarial Council Working Groups review**

12.1 The Council noted the membership of the working groups and noted that the Chair was considering the establishment of a pensions (retirement income) working group.

## 13. **Forward Agenda**

13.1 The Council noted the forward agenda.

**14. Any other business**

14.1 The Council noted that the IFoA was looking to establish a working group to assess issues arising from the development of third party software to enable trustees to carry out analyses of their schemes' funding positions. The Council considered that this was an area the FRC should also consider in more detail and requested a paper on the issues be brought to the June meeting.

14.2 There was no other business.