

Minutes of a meeting of the Actuarial Council held on Tuesday 28 July 2015 held at the FRC Office, 8th Floor, 125 London Wall, London EC2Y 5AS

Present:

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

Observers:

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

Siân Barr	Project Director, Actuarial Oversight (Minute 1 only)
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
Natasha Regan	Project Director, Actuarial Policy Team

Introductions and apologies for absence

Apologies were noted from Martin Bradley and Paul Johnson (Council Members).

1. Executive report

1.1 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:

FRC Board meeting

1.2 The Council noted that the FRC Board had met on 20 May and 1 July 2015 and had:

- Agreed the recommendation of the Council to defer the implementation of TAS 100.
- Noted the proposed publication of the feedback statement on the discussion paper JFAR: A risk perspective (which had subsequently been published).
- Agreed to undertake a research project on retirement income considering the long-term impact of recent changes in pension policy on actuarial advice and investment.

Staff matters

- 1.3 The Council noted that Ann Muldoon has been appointed as Director of Actuarial Policy and will join the FRC at the beginning of November.

Oversight of the IFoA

- 1.4 The Council noted a review of the FRC's oversight of the actuarial profession is underway and that a common theme emerging is the suggestion that the FRC could make better use of its internal stakeholders with experience of actuarial work in order to assist those who are less familiar with such work. Accordingly, it could be expected that the FRC's Conduct Committee will seek advice from the Actuarial Council on a more explicit and frequent basis.

JFAR

- 1.5 The Council noted a summary of the discussions held at the JFAR meeting in June and the agenda for the September JFAR meeting. In respect of the thematic reviews due to be considered in September it was noted that:

DB to DC transfers

- Faye Dyce (FD) had attended a roundtable discussion of DB to DC transfers hosted by the Pensions Minister on 21 July. FD reported that the Pension Minister expressed concerns about the potential impact of transfers on the funding position of schemes and therefore welcomes the JFAR review and would be interested in the results.

Group think

- Des Hudson (DH) reported that the IFoA are considering the effects of 'group think' internally and that clarification is required to determine the level of debate the JFAR is willing to have, given the identification by some of regulation as a significant contributor to 'group think'. The Council considered that it was important that any work done by the IFoA on 'group think' explicitly address the issue of group think driven by regulation.

GI reserving

- A thematic review on GI reserving is underway.

- 1.6 The Chair requested that the project specification for the JFAR Review on Group Think and the IFoA paper on 'the role of the actuary' considered by the JFAR at an earlier meeting be circulated to the Council for information.

July 2015 Budget

- 1.7 The Council noted that the consultation paper (*Strengthening the incentive to save: a consultation on pensions tax relief*) published by HMT following the July budget announcement contains a number of proposals that might, if enacted, have a significant impact on the pensions landscape. The Council expressed concern that the proposals will significantly reduce the incentives to contribute to pension schemes and make short term saving plans, such as ISAs more attractive. The Council also expressed concern that the proposals may lead to unintended consequences. It was suggested that there is a need to introduce changes which will foster the creation of an environment which supports the development of products that provide investment risk absorbency for the customer and incentivise long-term investment.

1.7 MM reported that the FRC had not yet taken a view as to whether it will respond to the consultation. It was suggested that should the FRC decide to respond, the response should highlight the importance of having regard to the unintended consequences of the proposals.

2. TAS Developments

2a. Update on consultation: A new framework for Technical Actuarial Standards

2a.1 Robert Inglis (RI) provided an update on the Consultation 'A new framework for Technical Actuarial Standards'. It was noted that the FRC had published an update document which set out a high level analysis of responses to the consultation on 16 July. RI drew the Council's attention to a letter that had been received from the Committee of Actuaries in the Lloyds Market (CALM) setting out their concerns about the proposed scope of TAS 100.

2a.2 The Council noted the FRC had met with the IFoA to discuss whether the IFoA definition of actuarial work (as set out in APS X2) and the FRC definition of actuarial work (as set out in TAS 100) could be more made more consistent. RI reported that whilst both the FRC and IFoA recognise there would be advantages to having consistent definitions, both organisations accepted that their objectives are different. The IFoA is deliberately intending that its definition to capture more work than the FRC wants to capture.

2a.3 The Council discussed in detail whether the IFoA definition could be amended for the purpose of TAS 100 by including reference to the 'exercise of judgement and where the use of principles and / or techniques of actuarial science is central'. It was noted that this would result in a loss of the ability to capture work that may not involve material judgement or where actuarial techniques are not central but nonetheless is still presented as actuarial work. The following observations and suggestions were made:

- It was suggested that clarity as to what 'work' the IFoA definition captures that the FRC definition does not capture would be helpful, particularly for the users of actuarial work who are likely to have limited understanding of the nuances.
- It was noted that the IFoA are unwilling to change the definition applied under APS X2 in the short term as the standard only became effective on 1 July 2015. However, the IFoA may be willing to review that position once the standard has been in force for a period.
- It was noted that only two respondents to the consultation, including the IFoA, had raised any concern about the difference in the definitions.
- It was suggested that the loss of the ability to capture work that may not involve material judgement, or where actuarial techniques are not central but work is nonetheless presented as actuarial work, is a significant issue. It would fundamentally change the protections that are available to the user and could result in increased risk to the public interest. It was also suggested that the ability to capture such work enables the credibility of the profession to be upheld.
- It was suggested that making the definitions more similar, but still not the same, could result in more confusion and that the FRC and IFoA should seek to have either the same definition, and if this cannot be achieved, there should be two distinctly different definitions.

- 2a.4 The Council advised that the executive should reconsider whether the FRC is content with the existence of different definitions of actuarial work, highlighting the differences in structure

/ approach of the application of the two definitions. The Council suggested that if the executive conclude the FRC is content with there being two definitions, the definition as set out in the November consultation document should be retained and the next phase of consultation should explain the rationale for the different definitions. The Council suggested that the executive should also consider whether there is scope for amending the description of the work that its definition covered, for example, the FRC definition could refer to 'technical actuarial work'.

2b. TAS 100 Developments

- 2b.1 JI reported on a meeting he and Natasha Regan (NR) had attended with CALM in order to discuss their concerns in respect of the scope of TAS 100 and their suggestion that an opt out to be allowed similar to that under section 24 of the Scope & Authority of Technical Actuarial Standards. The Council commended the executive's response to CALM's letter and noted that the meeting had been positive and that a way forward had been identified.
- 2b.2 The Council discussed whether the FRC might wish to explore collaborative working with CALM, or the Lloyd's Actuary, for the purpose of producing specific guidance material, possibly following a process similar to the FRC SORP-making process. Whilst the Council was supportive of the FRC partnering with external stakeholders in order to develop guidance the Council expressed some concern of working with narrow interest groups, and suggested collaborative working with the IFoA or wider groups of stakeholders might be more appropriate.
- 2b.3 On the advice of the Council the executive undertook to explore collaborative working options, akin to the SORP-making process, for developing guidance.
- 2b.4 The Council discussed proposed revisions to the project plan that would result in the effective date of TAS 100 being delayed by three months to April 2016. The Council noted that the deferral would enable the executive to spend more time in developing and undertaking the risk assessment process and would enable the incoming Director of Actuarial Policy to input to the development of the TAS framework.

2c. FRC's risk assessment process and an update on Review of Specific TASs

- 2c.1 RI introduced a paper setting out a proposed risk assessment process, a first draft of an analysis of the specific risk assessment processes for Pensions, Insurance and Funeral Plans and an analysis of the Risk Perspective hot spots against the scope of the current specific TASs. The Council noted that the proposed risk assessment process is a three stage process which will include:
- a) Risk identification – identification of areas of actuarial work with significant public interest.
 - b) Risk analysis – analysis of the risks and the effectiveness of existing controls.
 - c) Risk mitigation – determination of what additional controls could mitigate the risks more effectively.

- 2c.2 The Chair reminded the Council of the public commitment made by the FRC in November 2014 to develop a risk assessment process to determine whether areas of actuarial work should be subject to Specific TASs and highlighted the importance of ensuring that the

Council is satisfied that the risk assessment process developed is robust and fit for purpose. The Chair noted that whilst input from the JFAR risk processes would form one input to the risk assessment process, the process was an FRC process underpinning its actuarial standard-setting responsibilities and would stand alone from JFAR.

- 2c.3 The Council discussed the proposed risk assessment process in detail. The following observations and suggestions were made:

Risk Identification

- It was noted that the proposed sources of input to the risk identification process will include:
 - The output of the JFAR Risk Perspective consultation and JFAR's on-going risk identification work.
 - General intelligence including stakeholder engagement, horizon scanning discussions at Council meetings and JFAR meetings, information gathered from other regulators, including the IFoA.
 - The current scope of the specific TASs.
- It was suggested that:
 - The IFoA's risk outlook should be separated out from 'information gathered by other regulators' and listed as the first source of input.
 - Actuarial standards in other countries should be considered when developing the Specific TASs.
- It was noted that a key role of the Director of Actuarial Policy will be to filter the various inputs gathered, undertake an analysis of those inputs in accordance with the agreed risk assessment process and present that analysis with a corresponding recommendation to the Council as to whether particular actuarial work should be included in the scope of the relevant sector Specific TAS together with appropriate principles-based controls, or other forms of risk mitigation, such as statements of practice or guidance, should be developed by the FRC or others in line with the FRC's Principles for the development of Codes, Standards and Guidance and its supporting Framework document. The Council welcomed this approach.

Risk analysis

- Through discussion of the proposed risk analysis matrix it was suggested that there is a need for clarity over the criteria that determine when work would be considered of sufficient risk to warrant inclusion in the scope of a specific TAS.
- It was suggested that the risk analysis process should include a filter / step through which the level of actuarial input is assessed in respect of the risk identified.
- It was suggested there remains a need to agree what the 'public interest' is in order for the assessment of impact on the public interest to have meaning.
- The Council discussed whether the risk assessment process should seek to measure the gross risk before the impact of existing mitigants of the work identified for potential inclusion within the scope of the relevant sector specific TAS. Whilst it was noted that it would be helpful to have a measure of the gross risk the Council concluded that it would be too difficult to attempt to identify the impact existing regulation has on the quality of

work. It was therefore suggested that the net risk should be identified in the risk assessment process.

Risk mitigation

- It was highlighted that specific TASs will not always be the most appropriate or effective mitigants of risks and that other mitigants, such as the issue of thought leadership pieces, the development of guidance, or simply FRC announcements, might be more effective. Whilst the Council acknowledged that the FRC Codes & Standards Principles would be used to inform any decision as to whether Codes, Standards or Guidance are developed, the Council suggested it might be useful to use the risk analysis matrix to plot the expected impact of TASs on the work in question.
- It was suggested that the FRC should also have regard to the whether or not the increased regulatory burden resulting from inclusion in the scope of the relevant specific TAS, would be justified.

2c.4 The Council discussed the possible scope of revised specific TASs, noting that the analysis undertaken so far only considers the level of impact on the public interest. It was suggested that it would be useful for the analysis to include what existing mitigants are in place.

2c.5 The Council noted that it is the intention that when work is proposed for inclusion in a specific TAS, a summary of the risk assessment leading to that proposal would be included in the consultation document. Whilst the Council supported the broad thrust of the proposed approach the Council highlighted the need to:

- Integrate the process into the wider FRC Codes & Standards Principles review process.
- Ensure that, as part of the process, an analysis is undertaken to determine the impact a specific TAS would have and whether the inclusion of the work in the scope of the relevant specific TAS would be the most effective mitigant.
- Ensure that the risk analysis process includes consideration of the level of actuarial input to the area of work / risk.
- Identify measures to determine what work would / would not fall within the scope of a specific TAS.
- While considering both gross and net (of other mitigants) risks, focus on net risk for newly identified work to be considered for inclusion in the scope of a specific TAS.

3. AS TM1

3.1 The Council agreed its advice to the FRC Codes & Standards Committee and FRC Board to issue a fast track 6-week consultation on a revised version (v4.2) of AS TM1 proposing amendments to the base table assumption and the mortality improvement assumption rates. The Council agreed that it would confirm its assent to the consultation paper by e-mail.

4. International Developments

4a. IAA Statement of Intent to prepare a standard on governance of actuarial models

4a.1 The Council noted that the International Actuarial Association (IAA) is consulting on proposals to develop a high-level principles-based standard on the governance of actuarial

models '*IAA Statement of intent ISAP 1A – Governance of Models*'. The Council agreed the FRC response to the consultation should:

- Agree that a standard on the governance of models is needed.
- Agree that any such standard should be included in *ISAP 1 – General Actuarial Practice* and be applicable to all actuarial work.

- Emphasise the need to ensure any principles can be appropriately applied.
- Draw attention to the principles proposed in TAS 100 as a model the IAA might consider adopting.

4b. AAE Exposure Draft of ESAP 2 – Actuarial Function Report under Directive 2009/138/EC

4b.1 The Council noted that the Actuarial Association of Europe (AAE) is consulting on a second exposure draft (ED) of European Standard of Actuarial Practice 2 (ESAP 2) – Actuarial Function Report under Directive 2009/138/EC (Solvency II Directive). The Council agreed that the FRC response to the ED should be positive in tone but should:

- Reiterate that much of the standard replicates the requirement of the Regulations.
- Encourage the AAE to consider drawing attention to the generic principles in ESAP 1.
- Suggest duplication is eliminated.

5. IFoA Observer Report

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

5.2 Des Hudson (DH) highlighted that the IFoA will be discussing the responses received to its consultation on the proposal to introduce a voluntary Practising Certificate for members holding Chief Risk Officer roles in Solvency II companies at its Regulation Board meeting on 29 July. As responses to the consultation suggested that the voluntary regime would not add value the IFoA will consider alternatives options through the introduction of specific CPD requirements or the issue of best practice documents.

6. Minutes of the previous meeting and rolling actions

6.1 The minutes of the Council meeting held on 12 May 2015 were approved as an accurate record of the meeting.

6.2 The Council noted the rolling action log.

7. Forward agenda

7.1 The Council noted the forward agenda.

8. AOB

8.1 The Chairman reported that the terms of office for Keith Barton, Martin Bradley and Paul Johnson would shortly be coming to an end and that it was Keith's last meeting. The Chair thanked Keith for his contributions to the work of the FRC both on the Actuarial Council and the Codes and Standards Committee, and its predecessor body, the Board for Actuarial

Standards, and reported that a farewell dinner to mark Keith, Martin and Paul's departures would be held in the Autumn.