

**Minutes of a meeting of the Actuarial Council held on Tuesday 10 March 2015 in the Boardroom at 8<sup>th</sup> Floor, 125 London Wall, London EC2Y 5AS**

**Present:**

Olivia Dickson	Chair of Council
Keith Barton	
Rosemary Beaver	
Angela Darlington	(to minute 4)
Ashok Gupta	
David Hindley	
Howard Jacobs	
Joanne Livingstone	

**Observers:**

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

Francesca Chittenden	Council Secretary
Faye Dyce	Project Director, Actuarial Policy Team
Stephen Haddrill	Chief Executive (to minute 4)
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, Paul Johnson and Martin Miles (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:

**AS TM1 - accumulation rate review**

1.2 The Council noted that the FRC had published its report on the review of accumulation rates and that in publishing the report the FRC had not sought to judge or comment on the appropriateness of the accumulation rates reported despite noting the broad range of those assumptions.

1.3 The Council noted that the FRC would shortly be re-running the accumulation rate survey for SMPs issued after 6 April 2015. JI invited the Council to comment on the broad range of accumulation rates reported on in the 2014 survey and whether the FRC should consider

action to narrow the range of accumulation rates used by providers of SMPs moving forward.

- 1.4 Through discussion the following observations and advice was given:
- It was suggested that the variation in the rates used arises from a lack of clear methodology including a lack of clarity over the basis that should be used - in particular, the assumptions for the period before retirement are long-term assumptions and the assumptions for the cost of purchasing annuities at retirement are based on market conditions on a particular date.
  - The Council suggested that the FRC should invite respondents to provide their rationales for the assumptions used and that the FRC should “test” the rigour and consistency (including internal consistency across asset classes) of that rationale.
  - The Council advised that the FRC should take no action that may prejudice what the ‘wrong’ or ‘right’ approach might be.
  - The Council advised that the FRC should reiterate the requirement in AS TM1 (C.2.6.) for providers to document the rationale for the assumptions used and make the rationale available to members on request, and suggested that the FRC should promote rigour of approach.

#### **IFoA Quality Assurance Scheme**

- 1.5 The Council noted that the IFoA has published an update on its proposed Quality Assurance Scheme (QAS) and is developing a QAS handbook to support those applying for accreditation. JI reported that the FRC is providing input to the IFoA in developing the handbook and invited the Council to provide examples of practice they would regard as falling short of the level expected from an accredited actuarial firm for inclusion in the handbook.

#### **Survey to assess confidence in actuarial work**

- 1.6 The Council noted and discussed a summary of the findings of the survey to assess confidence in actuarial work and the conclusions drawn by the executive. The following points were noted and comments were made:
- The Council noted that the Actuarial Stakeholder Group (ASG) had received a presentation on the survey and that a number of Council members had attended.
  - The Council noted that the ASG had concluded that the lack of clarity between the respective roles of the FRC and the IFoA is not of concern.
  - The Council noted that the survey identified some concerns in respect of the clarity of actuarial information which suggests that either TAS R requires some amendments or that actuaries require training in the application of TAS R.
  - The Council noted that a number of insurance executives and NEDs consider that actuarial information has a tendency to be ‘presented in a more complex way than strictly’ necessary. Whilst the Council agreed that the recently introduced requirements of Solvency II may have skewed the results, the Council highlighted that actuaries have an obligation to present information in a way that is clear and the fact that the actuarial information and the regulatory environment is complex should not negate this obligation. The Council noted that the auditor respondents also consider there to be room for improvement in respect of the clarity and complexity of actuarial information and suggested the FRC should explore this further. The Council noted that the ASG had also

discussed this point and had suggested that a) there be further scrutiny of the auditor responses and b) a larger pool of auditors be interviewed for the next survey.

### **The Pensions Regulator's consultation on DB to DC transfers and conversions**

1.7 The Council noted that tPR's consultation on DB to DC transfers closes on 17 March 2015. JI invited the Council to provide suggestions on the issues that Trustees need to manage in the transition to the new regime, what is required to ensure good governance concerning the balance of interest between transferring members and remaining members and what technical guidance the Council considers Trustees need in developing their responses to the regime.

### **PRA consultation on using its powers to discipline actuaries**

1.8 The Council noted that the PRA is consulting on how it will use powers given by the Financial Services & Markets Act (FSMA) to discipline actuaries and external auditors of PRA-authorized firms if they fail to comply with reporting requirements under FSMA or duties imposed by the PRA rules (which will include Section 166 work).

1.9 JI reported that the FRC (as the independent disciplinary body for actuaries, accountants, accounting firms and auditors) is working with the PRA to develop a protocol to be used as a basis for open and cooperative co-ordination of enforcement action where the FRC and PRA have a mutual interest and there is a potential overlap. Through discussion it was noted that:

- The Parliamentary Commissions' Report on Banking Standards had identified a need for clarity over the respective roles of Regulators and the powers given to the PRA should to some extent address this.
- The power will enable the PRA to hold to account more fully auditors and actuaries who are working alongside auditors and / or who are undertaking actuarial work.
- The FRC and the PRA liaise closely on disciplinary matters and, under the current Memorandum of Understanding, the FRC is always informed of any disciplinary cases involving actuarial (and/or audit) work.

1.10 The Council agreed that there is a need for clarity as to when the PRA would initiate disciplinary action and when it would be appropriate for the FRC to do so. The Council highlighted the importance of ensuring that the protocol allows for flexibility.

1.11 Following discussion the Council supported the suggestion that the FRC and the PRA default position should be that the PRA initiate disciplinary action unless any of the three criteria set out in the FRC's Disciplinary Scheme are met, or, where it is anticipated that the outcome of any disciplinary action is likely to result in a change to the FRC standards.

1.12 The Council noted that FRC would respond in confidence to the PRA and that any subsequent changes to the Memorandum of Understanding (which would include detail of the protocol) would be published on the FRC website.

## **2. Freedom and Choice in Pension - JFAR paper**

2.1 Robert Inglis (RI) introduced a draft JFAR paper that set out areas of risk that have been identified as arising as result of the freedoms that will be available from 6 April 2015 and an analysis of the existing and proposed mitigants of those risks. The Council noted that the

paper would be updated to note that the IFoA has recently issued a letter to its Members to raise awareness of the issues that may arise when the freedoms become available.

2.2 The Council discussed the draft paper; the following observations and suggestions were made.

- The Council identified the following areas of risk as the key risks the JFAR should be encouraged to consider:

**Legislation.** It was suggested that current legislation which might no longer be fit for purpose as it was written when there were few transfers from DB to DC schemes, restricts the actuary's role and any mitigation the actuary can provide. The Council suggested that it would be helpful if the JFAR is sighted on instances where changes in legislation are necessary.

**Commutation factors and transfer values.** The Council suggested that as more members receive transfer value quotations close to retirement there will be an increased focus on commutation factors. The Council highlighted that commutation factors vary significantly and that the level of input from actuaries varies significantly, depending on scheme rules.

**Advice.** The Council suggested that the JFAR should be alert to the following points:

- There is a need to communicate that advice given by the actuary is for the benefit of the scheme and not the benefit of individual members.
- Actuarial advice might not be used as much as it should be.
- Current legislation restricts the assumptions which may be used for calculating transfer values.
- There is a need to ensure that members have clarity as to whether the advice they receive is provided by an actuary or by an independent financial advisor (IFA).

**On-line modelling tools.** It was noted that there is likely to be an increase in demand for on-line modelling tools from 1 April 2015 and that the level of involvement actuaries will have in developing those tools is unclear. It was also highlighted that there is a risk that such tools will be developed by non-actuaries and IFAs without the benefit of professional actuarial advice.

- The following areas of risk were also identified:

**Rushed decision making.** It was suggested the volume of enquires will increase post 6 April 2015 and that there is a risk that some actuaries may not take appropriate care and time in advising on transfer values due to the increased demand.

**The move away from the collective.** The Council highlighted that the increased focus on individualised decisions does not sit comfortably with the role of an actuary. It was suggested that the risks associated with this shift in focus should be communicated.

**Group think.** The Council highlighted 'group' think as an area of risk that should be explored further.

- The Council noted that it is not known at this stage how many individual members will take up the freedoms that will be available from 6 April and transfer from DB to DC schemes. It suggested that valuable insight could be gained by seeking information from the Independent Financial Advisor (IFA) community as to the number of enquiries they have received in respect of transfers and how many individual members subsequently make the transfer.

- It was suggested that the paper is too high level and that the paper would be more useful for the JFAR if the actuarial work underpinning the risks that have been identified was made clear.

2.4 The Council referred to tPR's consultation on DB to DC transfers and advised that, in their experience, Trustees are alert to the issues associated with the new freedoms and have already begun to consider the issues they will need to manage in transition.

2.5 The Council noted that feedback on the JFAR discussion of the paper would be reported at the next meeting.

### **3. JFAR Risk Perspective discussion paper**

3.1 Natasha Regan (NR) introduced a paper summarising the written responses to the Risk Perspective discussion paper and feedback gathered through outreach sessions. It was noted that the paper, would be updated in respect of late responses and comments made by the Council and would be presented to the JFAR at its meeting on 17 March.

3.2 NR reported that there is general support for the aims of the JFAR in identifying risks and in co-ordinating regulatory responses to avoid overlaps or gaps but that there is concern that the JFAR may attempt to introduce more regulation.

3.3 NR reported that whilst there is general support for the risk discussion and the JFAR, respondents have sought assurance that members of the JFAR do not intend to regulate against all of the risks that have been identified and would like to know what the JFAR intends to do next.

3.4 The Council discussed the preliminary feedback and commented on the proposed contents on the feedback statement. The following observations and suggestions were made:

- The Council identified a number of issues that should be addressed before the JFAR can decide on its next steps:
  - The framework needs to be developed and the criteria and process to prioritise the risks should be agreed.
  - Greater 'buy-in' is needed from the profession, it was suggested that the JFAR should take steps to engage the profession and highlight how the JFAR has listened to and has reflected on the input the profession has given.
  - There is a need to ensure that JFAR focus on the right risks taking into account whether actuarial involvement is central or peripheral.
- The Council discussed what criteria should be considered when prioritising risks. It was suggested that, in addition to criteria such as impact and likelihood, the JFAR should consider the time critical nature of the risk that has been identified and whether the risk has been encountered previously. The Council noted the FRC is developing a risk prioritisation matrix for discussion with the working group and JFAR.
- The Council discussed how the JFAR could engage with the profession and other stakeholders and it was suggested that the FRC, on behalf of the JFAR, engage with some of those who responded to the consultation or attended out-reach events and discuss the next steps. It was also suggested that the JFAR consider establishing a forum, perhaps using social media, to promote further engagement.

- The Council discussed the contents of the feedback statement and advised that the feedback statement should have the following functions:
  - a. Acknowledge the breadth of engagement that has taken place and keep enough of the content to encourage involvement from grass roots up;
  - b. Articulate the next milestones including the need to focus and prioritise the risks as part of the JFAR's risk framework; and
  - c. Set out an analysis, including proposals of next steps, in respect of three risks identified during the consultation process. It should be made clear that the risks reported on have not been subject to prioritisation.
- It was suggested that this approach would engage and promote buy in from the profession and provide a taste as to what can be expected.

#### **4. Consultation on technical actuarial standards framework**

4.1 Robert Inglis (RI) introduced a paper that summarised the written responses to the TAS framework consultation that had been received at the time of drafting and feedback gathered through outreach events. It was noted that since the paper had been circulated a further 32 written responses had been received bringing the total to 45. RI reported that whilst a number of responses had been received from general insurance and pensions actuaries, few responses had been received from life insurance practitioners.

4.2 RI summarised the key findings; the following points were noted and suggestions were made:

- It was noted that there is support for the content and style of TAS 100, particularly from pension practitioners.
- It was noted that many practitioners are opposed to an extension in scope and have proposed that there should be ability to, with the permission of users, 'opt-out' of some or all of the requirements of TAS 100 when undertaking non-reserved work.
- It was noted that many practitioners would like the terminology used in TAS 100 (particularly the definition of actuarial work) to be consistent with the terminology used by the IFoA. The Council sympathised with this request and suggested that the FRC and IFoA work together to explore the possibility of aligning the terminology used. The Council suggested that if it is not possible to align terminology that the FRC should clearly articulate why the definitions are different.
- It was noted that whilst there is general support for the proposed principles and provisions, a number of suggested improvements / approaches have been identified and will need to be considered.
- It was noted that many practitioners have requested that TAS 100 and the specific TASs are implemented at the same time, suggesting that a situation whereby practitioners would have to follow two different regulatory regimes would be costly, confusing and unnecessary. The Council considered the request in detail and a variety of views were expressed. Whilst it was highlighted that there would be merit in a) deferring the implementation of TAS 100 in order consider and address the concerns that have been raised in respect of the extension of scope and b) and issuing TAS 100 and the specific TASs as one 'package'. It was noted that the risk framework, which will be used to identify what specific TASs need to be developed would not be completed for a number of months and the 'package as a whole might therefore not be available for implementation until late in 2016 / early 2017.

4.3 The Council suggested that the executive should prepare a paper outlining the various options available for the Council TAS framework working group to consider and that the advice of the working group should be presented to the next meeting of the Council.

## **5. Succession planning**

5.1 The Chair reported that a recruitment exercise to appoint a pensions actuary and a life insurance actuary to the Council from September 2015 would shortly commence.

## **6. IFoA Observer Report**

6.1 The Council noted a report that provided an update on the activities of the IFoA since the last meeting of the Council. The Chair invited Des Hudson to provide a formal update on the work the IFoA is undertaking in respect of risk at the next Council meeting.

## **7. Minutes of the previous meeting and rolling actions**

7.1 The minutes of the Council meeting held on 20 January 2015 were approved as an accurate record of the meeting.

7.2 The Council noted the rolling action log.

## **8. Forward agenda**

8.1 The Council noted the forward agenda.

## **9. AOB and private session**

9.1 There was no other business.

9.2 The Council members met in private session without the executive and observer present.

