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Emily Brown  
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Dear Emily

## **PROMOTING ACTUARIAL QUALITY**

I have three comments on the FRC's Discussion Paper, *Promoting Actuarial Quality*.

The first point is a significant one, in my view, relating to the way in which one of the quality drivers has been drawn up. My point has potentially important repercussions for the development of quality. The *third* point suggests a rationalisation of the drivers into a format which engenders, I believe, a greater sense of completeness and coherence across the drivers. The second point is of less significance than the other two, but it is a building brick for the third point, which is why I present the points in that order.

### **1 Communication quality driver**

As currently drawn up, the third quality driver refers to communication in one direction only – from the actuary to the user. It is also drafted in a way which refers only to the output of the actuary's work, ie "actuarial information and advice."

In my view, the quality of actuarial work depends on good communication from a much earlier stage in the assignment, starting with communication, from the principal to the actuary, of the goals of the assignment. These goals include any formal terms of reference (as would be typical in a relationship with an external actuary) together with the needs, expectations and intentions of the user for that work.

Accordingly, I would suggest amending the existing formulation of the driver along the following lines:

*Communication between actuaries and users of actuarial information and advice – including communication from the users to the actuary (eg their needs, expectations and intended uses of the actuarial work) as well as the transparency and decision-usefulness of the actuarial information and advice, and the extent to which it explains the basis of the actuary's work and the uncertainties relating to it*

In making this proposal, I believe I can claim the support of Louise Pryor. Earlier this month, at a Staple Inn meeting to discuss the Discussion Paper, Louise's opening presentation listed various aspects associated with the "Communication" driver, including (but not limited to) "Discussions with clients – user needs and scope, limitations, key risks, qualitative aspects of data and systems ..." [the quote comes from one of Louise's slides; the three dots at the end are hers, not mine].

Louise's wording is not identical to my own, but I believe we are thinking along broadly similar lines – and, even if Louise and I are not in agreement, I stand by my proposal and commend it to the FRC.

Before leaving this point, I should add one final remark. It may be tempting to argue that the users needs, expectations and intention etc form part of “other factors outside the control of actuaries – such as ... the demands of non-actuaries” which is the FRC’s wording of the sixth driver in the Discussion Paper. But I think would be a mistake to address the point in that way. To treat the needs, intentions and expectations as being “outside the control of the actuary” is to suggest that actuaries just do what they are told without thinking about the requests made of them and without considering the best way to ensure that the actuary’s work fits in with the user’s business and engaging in a discussion.

## **2 Working environment for actuaries/Other factors outside the control of the actuary**

As currently formulated, the actuary’s working environment (5<sup>th</sup> driver) is listed separately from factors outside the control of the actuary (6<sup>th</sup> driver). The implication appears to be that the actuary’s working environment is seen by the FRC as something *within* the control of actuaries (ie either within the control of each individual actuary or else within the control of one or more senior actuaries in the organisation).

I don’t think that it is correct. The most obvious exception would be actuaries working in-house. Bearing in mind that the scope of the Discussion Paper includes non-regulated work, it is quite possible that work within the remit of the paper may be carried out by actuaries employed in a capacity which gives more senior non-actuaries significant control (or even dominance) over the actuary.

It seems to me that the authors of the Discussion Paper have not fully taken on board the implications of actuaries entering into an environment in which control is exercised by a non-actuary. The detailed discussion in the later chapters of the Discussion Paper do not seem to pick this point up (either in the 5<sup>th</sup> or the 6<sup>th</sup> driver). Given that the drivers are not an end in themselves – they are just the beginning of a process of quality enhancement – it would, in my submission, make a lot more sense for all environmental factors and drivers to be thought of under one heading, with a recognition that, for some actuaries, the environment may not be within the control of an actuary.

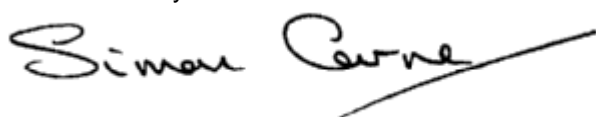
## **3 Looking at the drivers as a whole**

Looking at the FRC’s drivers of actuarial quality, it seemed to me that there would be an appealing sense of order and coherence if the six drivers were initially introduced under the following grouping:

- 1 The **environment** in which actuaries work, part of which is:
  - a) *outside* the control of actuaries; and part
  - b) *within* the control of actuaries
- 2 The **actuaries** themselves, and more specifically:
  - a) their *technical skills*; and
  - b) their *ethics and professionalism*
- 3 The **tools** [or “methods” to use the FRC’s term] used by actuaries
- 4 The **relationship** [or “communication”] **between actuaries and users**

This grouping is very faithful to the FRC’s current drivers: *Technical Skills* and *Professionalism* are at 2(a) and (b); *Methods* are at 3; *Communication* is at 4; *Environment* and *Other Factors* are at 1 (a) and (b). I think there is something to be said for my particular ordering of 1 to 4 (essentially starting from the outside and working inwards to the link between actuaries and users), but the ordering is less crucial than the identification of the four main headings **Environment, Actuaries, Tools and Relationships**.

Yours sincerely

A handwritten signature in black ink that reads "Simon Carne". The signature is written in a cursive style with a long horizontal stroke extending to the right.

Simon Carne