



**FINANCIAL REPORTING COUNCIL**

**ACTUARIAL QUALITY FRAMEWORK**

**JANUARY 2009**



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## One - Introduction

This Actuarial Quality Framework is designed to support effective communication between actuaries, their principal clients and employers such as senior management and members of governing and review bodies, other professionals such as lawyers and accountants, end-users and their representatives, policymakers and regulators.

The Framework has been prepared following consultation on the FRC's discussion paper, *Promoting actuarial quality*, issued in May 2008. The Framework is intended to be complementary to professional and other regulation affecting actuaries and those who rely on their work. It aims to promote the following drivers of actuarial quality:

- Methods: Reliability and usefulness of actuarial methods
- Communication: Communication of actuarial information and advice
- Actuaries: Technical skills of actuaries and Ethics and professionalism of actuaries
- Environment: Working environment for actuaries and Other factors outside the control of actuaries.

The FRC hopes that the Framework will assist:

- Actuaries – in seeking to provide high quality actuarial work for the benefit of users;
- Direct clients and employers, as well as their representatives and advisers – in evaluating the quality of actuarial information and advice and making appropriate decisions based on it;
- All stakeholders including end-users and their representatives – in evaluating the effectiveness with which actuarial quality is being promoted and achieved on their behalf; and
- Regulators, including professional bodies – in undertaking and reporting on their regulation of actuaries and the entities they inform and advise.

The users of actuarial work potentially include all these groups, including consumers (or end-users) who are affected by actuarial advice, such as investors, policyholders and pension scheme members, employees and beneficiaries, and rely on others to assess the quality of actuarial information and advice on their behalf.

For convenience, the Framework adopts the term 'user' to refer to the generality of these groups, and more specific descriptions such as 'client' (external) or 'employer' (internal) refer to a narrower class of user.

Actuaries advise and assist their clients or employers in relation to:

- Customer transactions - between clients or employers and their customers, such as pricing investments and risks, benefits and product development;
- Financial management of clients' or employers' operations - investment strategy, risk management, planning and analysing performance;
- Reporting - to other users including regulators on aspects of the financial performance, prospects and condition of entities; and
- Ancillary matters relating to these activities – such as audit, expert witness and insolvency work, and where the main financial institution is a third party.

References to 'actuaries' include all individuals who provide such advice, whether to clients or employers, including qualified members of the professional actuarial bodies (the Faculty and Institute of Actuaries) and others who hold themselves out as providing actuarial services.

The drivers need to be considered together and in context, since it is the application of actuarial judgment in respect of aspects of an assignment, and the assignment as a whole, which will impact decisively on the quality of the end-product. Equally, the overall quality of actuarial judgment is difficult to evaluate directly, so that the drivers provide a framework for identifying specific indicators of actuarial quality.

The FRC recognises that actuarial quality is a dynamic concept and that the drivers and indicators of actuarial quality may change over time. It will therefore update this Framework periodically in the light of comments received. The first such review will take place in spring 2010.

The actuarial quality framework is supported by other publications, including statements, standards, guidance and discussion papers issued by the FRC and its operating bodies. These are available on its website at [www.frc.org.uk](http://www.frc.org.uk).

We welcome comments on the actuarial quality framework.

## Two - Actuarial Quality Framework

| METHODS   |  |
|---|--|
| Driver  | Indicators   |
| Reliability and usefulness of actuarial methods | <p>Actuarial methods provide a positive contribution to actuarial quality where:</p> <ul style="list-style-type: none"> <li>• They make effective use of models, with due recognition of the power and limitations of the models used.</li> <li>• They are directed to the needs of users, and measures taken to ensure their reliability and usefulness are proportionate to the benefit they provide to the user, and are not unduly constrained by financial and other restrictions.</li> <li>• They incorporate checks on the reliability and usefulness of data, and full and clear model documentation so as to be capable of being checked and reproduced by other actuaries.</li> <li>• They incorporate robust criteria for: <ul style="list-style-type: none"> <li>◦ selecting assumptions which incorporate findings from theoretical and empirical research based on past experience and current market structures;</li> <li>◦ ensuring consistent treatment in the model of different measures such as assets and liabilities;</li> <li>◦ recognising and exploring risk and uncertainty; and</li> <li>◦ analysing model outputs against expectations.</li> </ul> </li> <li>• There is effective and continuing review within and outside the profession of the methods used, so as to encourage innovative, transparent and consistent approaches.</li> <li>• They meet technical standards which are principles-based and promote the reliability and usefulness of actuarial methods.</li> </ul> |

| COMMUNICATION  |  |
|--|--|
| <p>Driver</p> <p>Communication of actuarial information and advice</p> | <p>Indicators</p> <p>The communication of actuarial information and advice provides a positive contribution to actuarial quality where:</p> <ul style="list-style-type: none"> <li>• It is clear and unambiguous, using plain language where possible, with a view to addressing the needs of users for actuarial information and advice.</li> <li>• It includes sufficient information to enable the reader to judge the appropriateness and implications of any recommendations, without being obscured by immaterial or irrelevant information.</li> <li>• It includes an indication of inherent uncertainty, including an assessment of the key risks which the entity faces.</li> <li>• It includes discussions with clients or employers to establish a common understanding about: <ul style="list-style-type: none"> <li>◦ their needs and the scope of the actuary's work;</li> <li>◦ limitations on the reliability of the actuary's work;</li> <li>◦ the key risks identified and judgments made; and</li> <li>◦ the quality of their data, systems and documentation.</li> </ul> </li> </ul> |

| ACTUARIES                                      |   |
|--|---|
| Driver   | Indicators  |
| <p>Technical skills of actuaries</p>           | <p>The technical skills of actuaries make a positive contribution to actuarial quality where:</p> <ul style="list-style-type: none"> <li>• Actuaries are selected from a wide range of high quality applicants.</li> <li>• Actuaries have a comprehensive training in financial, economic and statistical theory and practice.</li> <li>• Actuaries are adept at using and interpreting the latest actuarial and related methods in their area of expertise.</li> <li>• Actuaries understand relevant aspects of their clients' or employers' business or operations, and are exposed to the wider business and economic environment in order to support the development of good judgment.</li> <li>• Actuaries are exposed in their work and training to a variety of actuarial methods and applications of those methods to a variety of business models.</li> <li>• Actuaries are committed to lifelong learning and development in actuarial and industry specialist issues from a range of academic and commercial disciplines.</li> </ul> |
| <p>Ethics and professionalism of actuaries</p> | <p>The ethics and professionalism of actuaries make a positive contribution to actuarial quality where:</p> <ul style="list-style-type: none"> <li>• Actuaries aspire to the highest standards of professional conduct, and to 'doing the right thing' in the public interest, and see this as enhancing their reputation and that of the organisations with which they are associated.</li> <li>• Actuaries exhibit objectivity, and are robust in identifying and resisting pressures to act against their professional judgment or against the legitimate interests of users or potential users of their work.</li> <li>• Actuaries have relevant training and guidance to help them address the ethical issues which are likely to arise in their work.</li> <li>• Actuaries speak up when they have reasonable concerns about actuarial work or the way it is used.</li> </ul>   |

| ENVIRONMENT  |   |
|--|---|
| <p>Driver</p> <p>Working environment for actuaries</p> | <p>Indicators</p> <p>The working environment for actuaries covers actuaries who provide advice to clients as external consultants, and actuaries who provide advice to their employers as part of an internal team or function. Although the organisations in which actuaries work, and the pressures to which actuaries are subjected, can vary widely, there are common indicators of quality which apply across all working environments.</p> <p>The working environment for actuaries makes a positive contribution to actuarial quality in organisations where:</p> <ul style="list-style-type: none"> <li>• There is professional leadership, and a culture of openness and learning from mistakes in which actuaries have people to turn to for professional counselling and advice.</li> <li>• Actuarial quality is valued, invested in and rewarded, and appraisal and reward systems promote ethics and professionalism.</li> <li>• Commercial considerations do not encourage actions and decisions that have a negative effect on actuarial quality, and actuaries are given sufficient time and resources to deal with difficult issues as they arise.</li> <li>• There are effective arrangements for controlling and monitoring actuarial quality and dealing with shortcomings.</li> <li>• Procedures are in place for managing conflicts of interest and avoiding unreasonable pressures being placed on individuals.</li> </ul> |
| <p>Other factors outside the control of actuaries</p>  | <p>Factors outside the control of actuaries which make a positive contribution to actuarial quality include:</p> <ul style="list-style-type: none"> <li>• An approach to corporate governance within the entities being advised that recognises their responsibility for taking decisions and reporting on the basis of actuarial information and advice.</li> <li>• External review mechanisms which are active, professional and robust in dealing with actuarial issues (including, but not limited to, audit).</li> <li>• Stakeholders who support and recognise the use of actuarial expertise, where appropriate, thereby increasing the likelihood that governing bodies and management will comply with their obligations in relation to actuarial matters.</li> <li>• Effective and transparent arrangements for dealing with professional shortcomings.</li> <li>• A regulatory environment for actuaries and their clients or employers that focuses on the drivers of actuarial quality.</li> </ul>   |

### Three - Contact details

The FRC recognises that actuarial quality is a dynamic concept and that the drivers and indicators of actuarial quality may change over time. It will therefore update this Framework periodically in the light of comments received. The first such review will take place in spring 2010, based on comments received by 31 December 2009.

We welcome comments on this Framework. Although we are not carrying out a formal consultation, these will be regarded as being on the public record unless confidentiality is expressly requested.

Comments should be sent to:

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For general information about the work of the FRC, please see our website at: [www.frc.org.uk](http://www.frc.org.uk)

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