



PROFESSIONAL OVERSIGHT BOARD

**THE ACTUARIAL PROFESSION'S PROGRESS AND PRIORITIES
IN REGULATING ITS MEMBERS**

MAY 2009

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Foreword

This is the Professional Oversight Board's third report on the UK Actuarial Profession's progress and priorities since we assumed responsibility for providing independent oversight of the Profession's regulation of its members in April 2006.

The previous two reports considered the Profession's progress in responding to the recommendations made to it by the Morris Review, many of which related to education and training. Whilst the Profession was fairly successful in demonstrating that it had implemented these recommendations, it has been harder for it to demonstrate how effective its reforms have been, or that there is a clear rationale for its regulatory activities. In our last report in January 2008 we therefore called on the Profession to focus on the intended outcomes of its regulation and the quality of its processes for achieving them. Much of our work over the last year has been directed at supporting the Profession in achieving this aim.

This report moves beyond the Morris agenda and considers the work the Profession has undertaken to modernise its ethical code, and the outcome of our work to review the monitoring and scrutiny of actuarial work. It sets out priorities in these areas, as well as the need to demonstrate the actuarial profession's continuing competence and fitness for purpose in today's tougher economic climate.

The Profession's development of the Actuaries' Code has been a key challenge and priority, reflecting its importance in setting out the Profession's expectations of its members, in order to demonstrate their individual and collective commitment to the public interest. Following three earlier consultation exercises, and discussions which led to formal recommendations from us in October 2008, we believe the Profession's latest proposals represent a significant step forward, on which it will now need to build more rapidly.

Our review of the monitoring and scrutiny of actuarial work was in response to several recommendations by the Morris Review, which in turn reflected concerns about the previous lack of external challenge or scrutiny of actuarial work. This too has been a difficult area for the Profession, since most of the regulatory and market review mechanisms are operated or mandated not by the Profession but by other bodies such as the FSA and the Pensions Regulator, which have taken the lead in promoting better scrutiny of actuarial work by the entities they regulate. Whilst we have concluded that the primary strategy for the Profession should be to support these enhanced review mechanisms, we consider there is more that the Profession should do in this area and in developing its own professional quality requirements for its members, particularly in pensions.

The Profession has agreed to expedite consideration of our recommendations as part of its own review work, with a view to publishing initial proposals and a clear timetable for its work by the end of 2009, rather than wait for us to undertake a further consultation. This is a welcome sign that, with recent strengthening of the independence and resources of its regulatory capability, the Profession is now readier to set its own agenda, with appropriate oversight from us, and assume a fuller and more proactive role in regulating its members in the public interest.

The Morris Review said that, if we were not satisfied with existing arrangements, we should consider recommending active monitoring such as an actuarial inspection unit. However, in view of the enhanced level of scrutiny we have found, particularly through regulation and audit, we have concluded that we should not adopt this proposal unless the more proportionate measures we are proposing prove inadequate. We will follow the Profession's progress keenly, with a view to a further report in 2010.

Dame Barbara Mills
Chair, Professional Oversight Board
May 2009

One – Background to this report

The Professional Oversight Board is responsible for providing independent oversight of the professional actuarial bodies in the UK (the Faculty of Actuaries and the Institute of Actuaries, which work together as the UK Actuarial Profession), as part of voluntary arrangements established between the Profession and the Financial Reporting Council (FRC) in response to the Morris Review of the Actuarial Profession in 2005 http://www.hm-treasury.gov.uk/morris_review_actuarial_profession.htm. The FRC is the independent regulator in the UK with responsibility for promoting confidence in corporate reporting and governance. For further details about the FRC and its operating bodies see www.frc.org.uk.

Our previous reports on the Profession's progress and priorities have focused on its response to the recommendations made to it by the Morris Review. We concluded that it had made significant progress, but were concerned that there was no clear or convincing rationale for its regulatory activities, which was undermining significant projects such as the review of its ethical code and the development of a new more principles-based Actuaries' Code, and made it difficult for us to assess the effectiveness of its regulatory activities more generally.

In our last report in January 2008 (http://www.frc.org.uk/pob/actuaries/ap_progress.cfm) we therefore called on the Profession to focus on the intended outcomes of its regulation and the quality of its regulatory processes for achieving those outcomes. As well as identifying and monitoring a number of priority areas for the Profession, such as its proposed new Actuaries' Code and developing measures of quality in its education and training, we undertook two major projects of our own which were directed at supporting the Profession in this aim:

- a joint project with the Board for Actuarial Standards (BAS) to identify the drivers of actuarial quality, which led to an FRC discussion paper in May 2008 and the development of the FRC's Actuarial Quality Framework (www.frc.org.uk/pob/actuaries/drivers.cfm) in January 2009 as a means of communicating with our stakeholders about ways of assessing and promoting the quality of actuarial work; and
- a review of the monitoring and scrutiny of actuarial work, in response to recommendations from the Morris Review. This has been a particularly difficult area for the Profession in the past because most of the existing regulatory and market review mechanisms are operated or mandated not by the Profession but by other regulators such as the FSA and the Pensions Regulator. We published a discussion paper in May 2008 (<http://www.frc.org.uk/pob/actuaries/reviewmonitoring.cfm>) and a feedback statement in January 2009.

We have also contributed to the FRC's development of strategic outcomes as set out in its regulatory strategy (<http://www.frc.org.uk/press/pub1959.html>) and assessment of risks to the achievement of those outcomes, including in relation to actuarial work:

- users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility (FRC outcome 4); and
- clients and employers of actuaries and of actuarial firms can rely on them to act with integrity and competence, having regard to the public interest (FRC outcome 5).

The major development since our last report in January 2008 has been the tougher economic climate following the credit and liquidity crunch which engulfed the financial markets in 2008. Although confidence in the actuarial profession has not been hit as hard as in other sectors, we consider that this aggravates one of the threats to actuarial quality which we had already identified, namely that the present economic climate may tempt some businesses to stretch assumptions on technical reserves in insurance and pensions and may increase the pressures on actuaries to make or accept inappropriately aggressive judgments and take or support inappropriate decisions. This has been confirmed by the FRC's own consultation on its Plan for 2009/10 and changes to its risk assessment and strategic outcomes:

<http://www.frc.org.uk/about/plans.cfm>.

The structure of this report

In previous reports we have provided our assessment of the Profession's progress against earlier recommendations. However, this year we have invited the Profession to set out its own assessment of its progress and priorities, so as to give it an opportunity to explain the rationale for its work and its plans for the future. This is included at Annex A.

Our assessment in Section Two of the Profession's progress is therefore relatively brief, as is our discussion of priorities for the Profession in Section Three. However, we have taken the opportunity to publish the recommendations which we have made to the Profession in relation to professional quality assurance arrangements (Annex B) as the main outcome of our review of monitoring and scrutiny of actuarial work.

Finally, we have set out in Section Four our work programme for 2009/10 in relation to our oversight of the Profession.

Comments

The Oversight Board would welcome comments on this review. For further information, please contact Paul Kennedy, 020-7492 2347, or Jon Thorne, 020-7492 2333. E-mail enquiries should be sent to:

actuarialoversight@frc.org.uk.

Two – The Profession’s progress during 2008/09

The Profession has been working to address the priorities we identified in January 2008, which were also largely picked up in its corporate plan for 2008/09, as well as maintaining its existing regulatory processes. The Profession’s letter of 27 March 2009 (Annex A) identifies a number of areas where, to varying degrees, it has made progress. At the same time, it expressed disappointment that it was unable to achieve as much as it would have liked.

There has been progress, for example in developing updates to the examination syllabus for communication, general insurance and risk management; benchmarking of education processes against other actuarial associations; further extension of the university accreditation scheme; provision of Continuing Professional Development (CPD) materials on current issues such as the credit crunch and the resulting financial turmoil; monitoring and enforcement of CPD; information sharing with the Pensions Regulator and a memorandum of understanding with the Pension Protection Fund; and changes to the disciplinary schemes.

Since its letter, the Profession has published exposure drafts of its proposed new Actuaries’ Code, although it is still to publish revisions to its CPD scheme, as well as a package of statistics about its membership. Clearly these are important developments, which respond in part to recommendations that have been made to the Profession by us and the Morris Review.

As the Profession acknowledges, it has made slower progress than it would have liked, and, despite recent progress, further work is still required in particular on:

- building a quality framework which promotes public confidence in the work of actuaries, including ethical and conduct standards and other supporting materials and professional development activities, especially on conflicts of interest and whistle-blowing;
- clarifying and validating competence requirements for qualified actuaries, through the development and communication of required skill sets for practising actuaries, enhanced CPD requirements, and the development and publication of measures of quality in the Profession’s education and other processes; and
- clarifying and validating professional quality assurance requirements, including its review of the practising certificates scheme, the compliance review requirements in pensions (GN48), and its consideration of the senior actuary role and compensation arrangements for professional shortcomings.

These priorities are considered further in Section Three under the respective headings of ethical and conduct standards, education and CPD, and compliance and discipline.

We note the steps that have been taken by the Profession to strengthen its regulatory capability, and we look forward to working with Sir Philip Mawer and his colleagues as they seek to clarify the Profession’s intended outcomes and develop the quality of its processes for achieving those outcomes.

Three – Priorities for the Profession

Ethical and conduct standards

The priorities identified in our January 2008 report included:

- the development of the Actuaries' Code and supporting standards, on conflicts in particular (considered below);
- developing a specific Actuarial Profession Standard or Information and Assistance Note (IAN) on whistle-blowing (considered below);
- development of a replacement for GN24 *The actuary as expert witness* in the light of the Compensation Act 2006 and other developments (now published);
- IAN on management of negligence risks, including the planned replacement of GN30 Compensation for professional shortcomings (considered further under compliance and discipline);
- IAN on the senior actuary role (considered further under compliance and discipline).

In this context, the main driver of actuarial quality identified in the FRC's Actuarial Quality Framework is the ethics and professionalism of actuaries, although other drivers are also relevant.

We welcome the Profession's commitment to building a quality framework which promotes public confidence in the work of actuaries, and the value it places on our input, as well as the Actuarial Quality Framework. With the Actuaries' Code, we made plain that the Profession should give its members a clear and unequivocal set of principles which affirm and support their commitment to the public interest through membership of the Profession. We also encouraged the Profession to consider the risks to actuaries' professionalism and how they might be addressed in the Code and in its regulation more generally, including the particular feature in actuarial work that pressures can come from direct clients, or for in-house actuaries from their employers, as well as from other interests.

Whilst we expect the Code will be improved further as a result of consultation, we welcome the specific principles that the Profession has now proposed on:

- standing up to undue pressure and influence which might undermine actuaries' objectivity;
- acting on their concerns and challenging misconduct by others; and
- ensuring that communications with which they are associated are clear and not misleading.

Given the increased pressures faced by actuaries in the current environment, we expect the Profession to finalise and adopt its new Code in the summer of 2009.

We also note the Profession's commitment to develop specific standards, information and assistance notes (IANs), and its existing professionalism courses, as well as its introduction of an interpretation service.

The need for guidance on conflicts of interest in pensions is an outstanding recommendation from the Morris Review, which we have highlighted in previous reports. In our view there is no effective substitute for separation of advisory roles for trustees and sponsoring employers. Where separate advisers are not appointed, trustees are primarily responsible for satisfying themselves on the independence of the advice they receive; however, the Profession needs to ensure there are adequate professional safeguards over the independence and objectivity of the actuaries appointed.

The Profession should also be able to demonstrate that actuaries are equipped to meet the requirements of the Code and the BAS's new technical actuarial standards, as they develop. **Now that the Code has progressed, the Profession needs to devote sufficient resources to formulate a standard on conflicts of interests in pensions as a priority and ensure that other standards and IANs are developed, along with adequate training and validation where necessary.**

Education and CPD

The priorities identified in our January 2008 report included:

- syllabus developments, including in response to the Actuaries' Code, the conceptual framework of technical standards being developed by the BAS, and the joint mortality review (considered further under ethical and conduct standards above);
- developing measures of quality in the Profession's own examinations, work-based training, and its processes for monitoring accredited universities (considered below);
- making information available about the Profession, in the interests of transparency, particularly on students (exemptions given, exams taken, pass rates, specialisms, progress through the exams), and on CPD (categories, hours recorded for each category etc.) (considered below);
- the recognition in skill sets for actuaries of both communications (completed) and the review of the work of another actuary - for example in audit work (considered in compliance and discipline);
- building on its existing involvement with the International Actuarial Association (IAA) and the UK Inter-Professional Group (UKIPG) to develop its capacity to benchmark against other professional bodies, both nationally and internationally (considered below);
- the Profession's review of its CPD and practising certificate arrangements, including the adequacy of its requirements and consideration of the skills needed and how these can best be maintained (considered below and under compliance and discipline);
- adequacy of CPD offerings for current issues such as mortality and the credit crunch (considered below).

In this context, the main driver of actuarial quality identified in the FRC's Actuarial Quality Framework is the technical skills of actuaries although other drivers are also relevant.

We note that the Profession has developed new principles for its CPD scheme, in response to earlier recommendations from the Morris Review and the Oversight Board. We also note the benchmarking work that has been undertaken with the US Society of Actuaries to develop measures of quality in its education processes, on which we expect to see further progress, and the plans to publish a package of statistics about its membership.

We consider that the Profession should follow through its CPD principles with a clearer message about the competence and skill sets which are expected of practising and non-practising actuaries who work in different areas, and how these can be supported and validated, so as to ensure that its requirements can be targeted and proportionate.

However, we do not accept the argument of some that the professional requirements for actuaries who allow their work to be presented in a professional actuarial capacity should be no greater than those for non-actuaries who do the same work. By presenting their work in this way, actuaries are making a

statement about the professional standards of competence and integrity that apply to their work, on which the public is entitled to rely. There is a significant risk to the reputation of the Profession and its members, as well as to the public interest, if those standards are not met.

Given the current public concern about the financial and risk management of banking and other credit risk businesses, and the Profession's ambition to develop its reputation for risk management expertise, we recommend that particular attention should be given to competence requirements for actuaries who offer professional actuarial services in this area.

Compliance and discipline

The priorities identified in our January 2008 report included:

- making amendments to the disciplinary schemes following a review by the Profession's Disciplinary Board (now published);
- statistical trends and the Profession's handling of issues that arise, for example on the conduct of a particular complaint (which are included in reports by the Profession's Disciplinary Board);
- bringing together its regulatory materials and processes (updated in the light of its strategy review) in a more coherent form (considered under ethical and conduct standards above);
- the Profession's contribution to our review of the effectiveness of monitoring and scrutiny of actuarial work (considered below);
- its own review of GN48 - *Compliance review: pensions* (considered below);

In this context, the main drivers of actuarial quality identified in the FRC's Actuarial Quality Framework are the working environment for actuaries and other factors outside the control of actuaries, such as the activities of regulators, although other drivers are also relevant.

The Profession has recently announced changes to its disciplinary schemes. Following the case of a scheme actuary who had practised without a practising certificate for seven years, we suggested that the Profession should check its practising certificate information against data held by the Pensions Regulator. We understand that this work is underway and indeed has identified a number of further cases. **The continuing challenge for the Profession will be to find other proactive ways of ensuring it picks up and addresses concerns about professional shortcomings on a timely basis.**

Our recommendations on monitoring and scrutiny of actuarial work follow a major consultation, published in May 2008 (see <http://www.frc.org.uk/pob/actuaries/reviewmonitoring.cfm>), and a parallel FRC consultation on *Promoting actuarial quality* (<http://www.frc.org.uk/pob/actuaries/drivers.cfm>) which resulted in the development of the FRC's Actuarial Quality Framework.

We found there was enhanced scrutiny of actuarial work, primarily through regulation and audit, but limited external monitoring of compliance with professional standards. We concluded that the main strategy for the Profession should be support for existing regulatory and market review mechanisms, through relevant education, research and practice guidance; but there was a need for effective and proportionate professional quality assurance requirements, primarily in pensions.

We originally intended to develop proposals for consultation ourselves, in order to generate feedback to inform the Profession's decision-making. However, as the Profession has told us it would like to consider our proposals now as part of its own reform agenda, we have agreed that the Profession should expedite consideration of these matters as part of its development of standards for handling conflicts of interest, and reviews of its practising certificate and compliance review requirements. **The main proposals we have recommended the Profession should consider are enhanced review requirements for scheme actuaries,**

combined with stricter independence requirements before they are permitted to advise both trustees and sponsors; and professional quality assurance requirements including practising certificates for consulting actuaries who hold themselves out as providing professional actuarial services to an external client.

Our full recommendations and supporting analysis on these proposals can be found in Annex B.

This work will also pick up the points in our report in January 2008 about the role of the senior actuary, and compensation arrangements for professional shortcomings. However, it is for the Profession to determine the appropriate response, and the extent to which it seeks to invite actuarial firms to support its regulation of its members, whether through a direct relationship or otherwise.

We understand that, by the end of 2009, the Profession will have developed proposals for consultation on conflicts of interest in pensions, and will have set out a process with clear timetables for addressing the remaining, related matters we have identified.

The Morris Review recommended that, if we found the Profession and the overall regulatory framework were providing insufficient monitoring of compliance with standards, the FRC might wish to consider an external inspection unit. At the same time, no form of active external monitoring, however rigorous, will identify the pressure that can be placed on an actuary to re-think the underlying assumptions.

In view of the enhanced external scrutiny through regulation and audit, and the potentially significant costs involved in active external monitoring and inspection, we have concluded that we should not recommend this approach to the Profession unless other options prove inadequate. We will therefore report again in 2010 once we have reviewed the Profession's proposals and timetable.

Four – The Oversight Board’s work programme in 2009/10

As part of the FRC’s Plan for 2009-10 (<http://www.frc.org.uk/about/plans.cfm>) the Oversight Board will undertake, or contribute to, the following activities, in the context of helping the Profession make progress against its priorities:

To be carried forward by the Oversight Board:

- Promote the FRC’s Actuarial Quality Framework (<http://www.frc.org.uk/publications/pub1854.html>) and keep it under review, with the first review to be undertaken by us in conjunction with BAS colleagues in the spring of 2010 – 4(b)(iv)
- Make recommendations to the Profession on professional quality assurance arrangements for actuaries and their firms (which we shall follow up in 2010) – 4(d)(ii) and 5(d)(i)
- Continue to monitor the regulatory activities of the Profession in relation to its members, in accordance with the priorities identified in Section 3 – 5(d)(i)
- Continue to monitor developments, assessing those issues that could adversely affect public confidence in actuaries and, where appropriate, undertake more detailed research and make recommendations to the Profession or recommend the development of new standards – 5(d)(i)

Contributing to the following FRC activities:

- Review the implications of Solvency II, in conjunction with colleagues at the BAS – 4(b)(ii)
- Keep under review the FRC’s guidance to users of actuarial information on the continuing challenges arising from current economic conditions (<http://www.frc.org.uk/press/pub1800.html>) particularly in response to the risks identified in the Plan – 4(c)(ii)
- Review the regulatory framework for professional discipline and enforcement of standards including the FRC’s role within the framework, covering the Profession’s disciplinary schemes as well as the work of the professional accountancy bodies and the Accountancy and Actuarial Discipline Board – 5(d)(ii)

References are to components in the FRC Plan 2009/10, which also set out the FRC’s activities to ensure that it is an effective, accountable and independent regulator, operating in the public interest.

Annex A – Letter from the Profession’s Chief Executive



The Actuarial Profession
making financial sense of the future

Dame Barbara Mills
Chairman
Professional Oversight Board
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27 March 2009

Dear Dame Barbara

At our recent liaison meeting you indicated that the Oversight Board would find it helpful to receive an assessment from the Profession as to how it had progressed with its regulatory activity in the past year and to outline its plans for the future.

Overview

This letter identifies a number of areas where, to varying degrees, we have made progress. We are disappointed that we have been unable to achieve as much as we would have liked and we recognise there is more to be done. Our shortcomings to date have been primarily due to lack of available resource rather than lack of ambition or intent. We outline in this letter the steps taken to increase the resource. We share the FRC’s aim to promote confidence in corporate reporting and governance. We are committed to the need to ensure

- that the users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility, and
- that the clients and employers of professionally qualified actuaries can rely on them to act with integrity and competence, having regard to the public interest.

We have framed one of the key goals of our corporate plan as:

Build a quality framework which promotes public confidence in the work of actuaries

Regulators and organisations representing the public will respect the professional ethics and standards demonstrated by actuaries

We are determined to achieve this goal and value the oversight role which the Oversight Board has as a means of stimulating thought and focusing our attention, in the public interest, on the issues which the users of actuarial services may be concerned. There are already encouraging signs that the new structure and new resource will quickly bear fruit.

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Resources

We recognise, particularly when we make commitments to the Oversight Board about the action we plan to take, that we have to be realistic. It is important to acknowledge the limitations which come with being a small, volunteer-driven organisation. As you are aware, even with the Faculty and Institute acting together, with some 6,500 working actuaries in the UK, the Profession is significantly smaller than any of the six accountancy bodies which you also oversee. In this last year we have had a number of pressures to deal with which have impacted on delivery:

- A reduction in available volunteer time due to work pressures during recent financial turmoil,
- The bedding down of our new committee structure and the time needed on taking the remedial action to increase staff support,
- Distraction on reactive merger-related activity of some staff, in particular those involved in professional regulation activity,
- Absences, each for a number of weeks on medical grounds, of the Chief Executive and Head of Professional Regulation.

The events of the past year have shown us that we need to have a policy making structure which has the time to evolve the policy and has, and is seen to have, an appropriate focus on the public interest. We have responded by committing a significant increase in resource available to our Professional Regulation Executive Committee which we see as being of primary importance in shaping future delivery. Firstly we have increased the non-actuary input to the committee and, following open competition, are particularly pleased that Sir Philip Mawer is joining in April and will take over as Chairman with effect from 1 July 2009. In addition, we have Penny Shepherd MBE, Chief Executive of UKSIF, joining in April to join Alex Galloway CVO (ex-Clerk to Privy Council) as the third lay member. We have also increased the senior staff complement by recruiting an actuary as Head of Regulatory Policy and a lawyer as Head of Regulatory Compliance. Once this new team is fully operational we believe that we will be well placed to make significant steps forward. Many projects are currently in progress, by virtue of this additional resource will receive new impetus to reach fruition and bring together our regulatory materials and processes (updated in light of recent strategy review) in a more coherent form.

Progress over the last year

The following paragraphs set out the progress we have achieved over the last year, the areas still needing attention and our plans for 2009/10.

Actuaries' Code

As you will appreciate our main challenge has been around the development of the Actuaries' Code as a principles-based ethical code to replace our complex and prescriptive Professional Conduct Standard (PCS). During 2007 and 2008, we consulted with members on changes to the draft Code. During this time the PCS requirements have remained in force. Actuaries have

continued to follow high standards of conduct and therefore we do not believe the users of actuarial services have been exposed to any increased risk. Over this period we have had a number of meetings with members of your Board and staff and we are very grateful for the time and input you have given us. Following significant revision, over which we have taken a lead from you in constructing it in a way which gives improved readability for users rather than actuaries, we will shortly launch the final phase of consultation with the intention of introducing the Code in August 2009. For completeness, after launching the consultation, the Professional Regulation Executive Committee will respond to the Oversight Board's 13 October 2008 letter outlining your recommendations in this area.

The Code was designed to sit at the heart of our regulatory quality framework from which a number of specific Actuarial Standards would be linked. Until the Code was finalised we have, as you will understand, been held back from moving forward on other matters such as role specific requirements, conflicts of interest, whistle blowing and a policy on professional indemnity insurance. We have, however, created a Standards Approval Process and published an Information and Assistance Note (IAN) to replace GN24 *The Actuary as Expert Witness*. We have also published an IAN on the Risks of Derivative Exposures. In April we will publish an IAN on *Management of Negligence Risks* to replace GN30 *Compensation for Professional Shortcomings*. In May we will publish an Actuarial Profession Standard: *Investment related Business Activities for Authorised Professional Firms* and a related IAN on *The Actuary and Activities Regulated under FSMA 2000*. The publication of these IANs demonstrate our commitment to developing material which supports practitioners.

We have developed a confidential Interpretation Service which is available to members. This service covers interpretation of the PCS, the Actuarial Profession Standards and BAS Standards. It has been handling an average of three enquiries a month since its launch in spring 2008.

We have put on hold our review of GN48 -*Compliance review: pensions* and an IAN on the senior actuary role pending the outcome of the work being undertaken by the Oversight Board on the effectiveness of monitoring and scrutiny of actuarial work. We will be seeking a separate discussion with you on this subject.

We have developed a good working relationship with BAS. We have responded to all their consultations, which has reduced the resource available to generate our own material. We have encouraged practice specific dialogue where appropriate and offered to source volunteers for BAS working groups if needed. We actively publicise to our membership information about BAS publications. We have facilitated consultation and other meetings on FRC topics upon request.

We continue to maintain good working relationships with the FSA and tPR. We have recently signed a memorandum of understanding with the Pension Protection Fund. Dialogue with them about the work of actuaries with which they come into contact has led to the development of some related Continuous Professional Development (CPD) topics.

We have been developing refinements to our CPD Scheme, including enhancing the requirements for reserved role holders. This will be presented to Joint Councils later this month and launched to members shortly thereafter (the CPD year for most members runs July to June each year).

Discipline

We have undertaken a thorough review of our disciplinary schemes to ensure that they continue to represent best practice and dovetail appropriately with the scheme for actuaries operated by the Accountancy and Actuarial Disciplinary Board (AADB). We have two schemes which share the same infrastructure. We had feedback from both the Oversight Board and AADB before finalising. We understand that there are some features we have developed that AADB may wish to replicate in revisions to their arrangements. The schemes are currently being consulted upon with members and it is hoped they will be approved by Special General Meetings (as a change to the Institute's bye-laws requires) in April.

A case related to acting without a practicing certificate led to the professional regulation staff undertaking an exercise with tPR to compare records in order to identify any other omissions.

We have initiated the first 25 disciplinary investigations of those individuals who appear to have fallen short of the requirements of our CPD scheme. The Disciplinary Board has set sanctioning guidelines in order that the cases can be dealt with in a consistent manner, reflecting the importance with which the Profession considers the requirement for actuaries to keep up to date.

The Discipline Board, under the lay chairmanship of John Hayes CBE, publishes regular reports on its activities, including statistics on cases, on the Profession's website.

Membership Information

Building on the model of the work you have undertaken in producing "Key facts and trends in the Accountancy Profession" we have developed a set of membership statistics for past three membership years: 2005/6, 2006/7, 2007/8. By the end of March we will publish on the web information on the following:

Whole membership by: territory, gender, age, employer type, industry sector
Students by: territory, gender, age, employer type, industry sector

Associates by: territory, gender, age, employer type, industry sector, regulatory status

Fellows by: territory, gender, age, employer type, industry sector, regulatory status

University trends

First degree trends

Exam numbers

Practising certificates in issue

Qualifiers by: gender, location, employment area

Education and qualifications

The Profession considers that it has made good progress in developing objective measures of quality in the examination process. In addition to the 'brainstorming session' held between senior members of the education committees of the Profession and the Oversight Board in July 2008, an Education Conference was held in Oxford in November 2008 between the Profession and the US Society of Actuaries. The Society is the other major professional provider of actuarial education with some 29,752 students worldwide, compared to the Profession's 9,650. The Oversight Board representatives attended part of the conference during which good progress was made in devising a 'dashboard' of measurement instruments to benchmark the examination processes of the Profession and the Society within a balanced scorecard context. Subsequently the Society and the Profession have made a joint bid to the International Actuarial Association to work together in providing actuarial education in less developed countries. Follow-up meetings with the Society to develop further the benchmarking project have been arranged in London in June and Chicago in August in 2009. Both bodies are committed to the project and to developing the quality of the examination process.

The Profession's Work Based Skills programme was reviewed with employers in 2008 and the process clarified and simplified while retaining the key learning objectives which are well regarded by employers.

In order to increase the routes to qualification, the Profession has now accredited courses at 12 universities, including Masters courses at both Oxford [Said Business School] and Cambridge [Statistical Laboratory]. It is too early to assess the impact of these arrangements on access. There is a comprehensive set of quality assurance processes to ensure equivalence with the Profession's examinations. The current approach is being reviewed to ensure it is fit for purpose. The review will include comparison with another professional body which uses accreditation of universities as part of the qualification process. The Profession is also represented at meetings now arranged between the UK Inter-Profession Group and the Qualifications Assurance Authority on working with universities.

The actuarial skill sets have been reviewed and now include communication skills. A new course-based assessment module has been developed for communications. The syllabus of the CA2 [Modelling] course includes audit trails and an introduction to the review of other actuaries' work. The Specialist Application level syllabuses are being reviewed to include reference to the Actuaries' Code [once launched] along with the publications of BAS where relevant. Questions to test knowledge of the Actuaries' Code of both pre- and post-qualified members have been developed for inclusion in qualification courses such as CT9 [Business Awareness] and Professionalism courses and events once the Code is launched.

There has been significant development of an Enterprise Risk Management (ERM) syllabus and supporting educational material. The first step was a fundamental review of subject CA1, including a change of name to "Actuarial Risk Management". This is already in place, with students studying the new syllabus for the first exams in April 2009. Risk management techniques are introduced to all students at the Core level, even those not intending to specialise in this field. The specialist level syllabus has been developed by volunteers with experience across a wide range of ERM areas, led by Professor Andrew Cairns of Heriot-Watt University. The team is currently working on the Core Reading required to support it. It is intended to introduce the ERM Specialist Technical subject (ST9) in June 2009 for first examination in April 2010. We believe this development is timely given the current financial crisis. Consideration is being given as to how some of this material can be used as CPD activity for qualified actuaries.

CPD activity

In 2008 we increased the number of events (conferences, seminars, network evenings, sessional meetings etc) we ran from 44 to 78. A key role of each practice area executive committee is to respond to the needs of their community. This has led to increased delivery of CPD via open forums or networking events on hot topics. We have recently launched practice specific e-newsletters to target information more effectively.

Some CPD activity is multi-disciplinary, for example the recent open forum: "Credit Crunch: practical consequences for actuaries".

In response to the current financial crisis we set up a new member interest group: Global Financial Crisis Group. It has been developing new ways of sharing information including a series of discussion boards to stimulate exchange of ideas.

Research as the basis of generating CPD

The Mortality Research Steering Group was set up with the aim of better understanding the current state of knowledge in mortality and influencing research in order to provide a more robust foundation for advice to life offices, pension schemes and governments. The Group has

developed a new model for working with other disciplines to achieve its aims. The Group's first initiative was to commission an academic post doctoral researcher to map the principal areas of current research into mortality across a range of disciplines. The report was presented to an interdisciplinary group of experts in March 2008 and it was subsequently presented to Sessional Meetings at the Faculty and the Institute. These meetings gave opportunities for additions to the report to be proposed and gaps in research to be identified. The report in its final form will be published in the British Actuarial Journal. This work has led to plans for a high-profile multi-disciplinary conference: *Joining Forces on mortality and longevity* which will take place on 21-22 October 2009 in Edinburgh, chaired by Professor Tom Kirkwood.

We have recently commissioned Cass Business School to conduct research into systemic risk in financial services which we intend to use for future CPD material.

The way forward

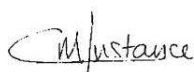
As the Profession's new structure has been settling down and as the Profession comes to terms with its relationship with the FRC and its operating bodies it is perhaps inevitable that a number of our activities in the regulatory area have been reactive and somewhat piecemeal to date. Looking forward, we feel that it is essential that the Professional Regulation Executive Committee, under its new Chairman, take the opportunity to firstly establish the regulatory rationale for the regulation of the profession. Leading from this will be the development of the framework and how the Code and Actuarial Profession standards fit together. We will then take the opportunity to reprioritise our initiatives based on the regulatory rationale. We are likely to include:

- specific conduct standards for Pensions roles, on whistle blowing and the standards our overseas members should follow.
- Review of the peer review arrangements in the pensions area
- CPD offerings on the Code and other professionalism activities

We will be realistic and not over promise what can be delivered.

We are clear what we want to deliver. We look forward to achieving it and to the constructive contribution the Oversight Board's role can bring.

Yours sincerely



Caroline Instance
Chief Executive

Annex B – Our recommendations on professional quality assurance arrangements

The following recommendations were confirmed by the Oversight Board in May 2009.

Under the Memorandum of Understanding between the FRC and the Actuarial Profession, the Profession is committed to responding to our recommendations, either by implementing them within a reasonable period, or by giving reasons in writing for not doing so, on the basis that these reasons will be published.

The Oversight Board’s review of monitoring and scrutiny of actuarial work

Our review was undertaken in response to three parallel recommendations by the Morris Review – in life insurance, general insurance and pensions - that the FRC should satisfy itself that there is adequate independent scrutiny of actuarial work and monitoring of compliance with actuarial standards, through regulation, audit or external peer review.

As confirmed in our feedback statement (<http://www.frc.org.uk/pob/actuaries/reviewmonitoring.cfm>) published in January 2009, we found that there was enhanced independent scrutiny of actuarial work, primarily through regulation and audit, as well as additional responsibilities for governing bodies, but limited external monitoring of compliance with actuarial standards.

Support for existing regulatory and market review mechanisms (Strategy 1)

We concluded that, given the extent of independent scrutiny already being undertaken, the primary strategy for the Profession in all areas should be to provide additional support for existing regulatory and market review mechanisms (Strategy 1), for example through:

Option 1A - develop relevant (audit/scrutiny) skills through education and continuing professional development (CPD);

Option 1B – develop non-binding quality assurance standards and guidance on effective quality control procedures within actuarial firms;

Option 1C – periodically publish research and statistics on professional review processes; and

Option 1D – develop consolidated whistle-blowing guidance.

In our feedback statement, we noted that many of these activities are the subject of existing initiatives by the Profession or outstanding recommendations by the Morris Review or the Oversight Board, which we would pick up as part of our ongoing monitoring of the Profession’s regulation of its members.

We are not therefore making any new recommendations in this area. However, we will pursue these separately with the Profession’s heads of division, and some of these initiatives – for example the development of non-binding guidance on professional quality assurance arrangements in firms - may be relevant to the recommendations below.

Professional quality assurance requirements for actuaries (Strategy 2)

In pensions, we concluded that the Profession needed to supplement Strategy 1 with additional professional quality assurance requirements. We sought views on a number of options in our discussion paper:

Option 2A – extend the application of GN48 Compliance review to corporate restructuring work and assignments for the sponsoring employer;

Option 2B – require external peer review which is independent of the actuary and the actuary's firm – possibly limited to schemes with 20 members or more;

Option 2C – administrative monitoring of compliance with quality assurance requirements;

Option 2D – introduce stricter independence requirements for actuaries undertaking relevant actuarial work, requiring separate advisers for scheme and sponsor for those schemes with say 20 members or more – possibly as an alternative to Option 2B;

Option 2E – introduce additional requirements for individual actuaries holding practising certificates which relate to the practice environment in their firm;

Option 2F – require practising certificates for external as well as regulated actuarial advice; and

Option 2G – allow firms as well as individuals to obtain a practising certificate.

We are now setting out our high level recommendations in this area, by reference to the Profession's current and proposed projects and reviews.

1. As part of its development of an actuarial standard on conflicts of interest in pensions, the Profession should consider prohibiting actuaries from providing advice to separate parties, such as both trustees and sponsors, on the same or a closely related issue, unless there is a robust independent review of their work.

We consulted on these proposals under Options 2B and 2D, which were also presented as alternatives. As explained in our feedback statement, there was a general view that actuaries should not normally be permitted to advise trustees and sponsoring employers; views were mixed on whether this could be acceptable with different actuaries from the same firm.

Our view is that there is no effective substitute for separation of advisory roles, even though external review may be used in mitigating the impact of conflicts.

It is for the Government and statutory regulators to determine whether dual roles should be made unlawful. However, it is important for the Profession to establish effective professional safeguards to ensure that the quality and reliability of actuaries' work for trustees is not undermined by actual or perceived conflicts of interest.

2. As part of its review of the operation of GN48 (compliance review in pensions), the Profession should consider:

a) extending the scope of the review obligation, to cover other areas where the BAS plans to issue specific technical actuarial standards which are not already subject to supervisory review by a regulatory body or through regulatory requirements for audit or other review mechanisms;

We consulted on a version of this proposal as Option 2A in our discussion paper.

There was general support for an extension of the scope of compliance review requirements in pensions, although it was pointed out that this would not be possible in the absence of standards against which work could be reviewed.

We did not seek views on whether compliance review should be extended to other areas, such as insurance, as we had concluded that there was already sufficient scope for reliance on monitoring and scrutiny through regulation and audit, although the actuarial firms we spoke to all said that they do something further in any event.

However, we expect the Profession to bear this reliance in mind when developing its specific standards for the work of actuaries performing senior reporting, governance and review roles in insurance, and in audit support work (GN42 covers life insurance). The Profession should also consider the need for compliance review in the reserved role of actuaries advising on pre-paid funeral plans.

b) whether the depth of the review will be sufficient to provide reasonable assurance that the work complies with the principles established by the BAS's new technical actuarial standards.

The existing requirements in GN48 take a fairly narrow approach to review, by focusing on compliance of written advice with existing standards, which are themselves fairly prescriptive and rules-based.

The BAS's new standards will be principles-based and will place considerable emphasis on meeting user needs. Consequently, when the Profession replaces GN48 with a new standard to require reviews of compliance with BAS standards, a more thorough review of an actuary's work will be required.

We consulted under Option 2C on whether the Profession should undertake administrative monitoring to confirm compliance with professional quality assurance requirements such as GN48, in the same way as it monitors compliance with its CPD requirements.

Changes to GN48 might also incorporate a strengthening of the independence requirements for the review in support of Recommendation 1 above.

3. As part of its review of the arrangements for issuing practising certificates, the Profession should consider:

a) the scope of the obligation to hold a practising certificate and in particular whether, and if so in what circumstances, it should cover:

(i) any consulting actuary who provides professional actuarial services to an external client, who places reliance on professional quality assurance arrangements which are outside the client's direct responsibility or control;

(ii) the reserved role for actuaries advising on trust-based pre-paid funeral plans which rely on the exclusion in Article 60 of the FSMA Regulated Activities Order.

We consulted on (i) under Option 2F in our discussion paper. The rationale for regulating consulting actuaries is the greater reliance which is inevitably placed by external clients on consulting actuaries to have their own professional quality assurance requirements, compared with employers of in-house actuaries (who are responsible for their own systems and controls) and users of work which is not presented in a professional actuarial capacity.

It would be for the Profession to determine suitable definitions of ‘professional actuarial services’ and ‘external client’ for this purpose. The professional bodies for accountants and lawyers have developed a number of approaches to defining ‘accountancy services’ and ‘legal services’, through a combination of illustrative examples (not confined to reserved roles) and more general holding out tests. The definitions are imprecise, but do not appear to have caused significant problems in practice. In its feedback statement on promoting actuarial quality (<http://www.frc.org.uk/publications/pub1865.html>), the FRC proposed a similar definition of professional actuarial services using a holding out test.

Similarly, we envisage that the definition of ‘external client’ would reflect the substance of the relationship between the actuary and the client, and in particular whether there is reliance on the actuary to have independent professional quality assurance arrangements which are outside the direct responsibility or control of the client or the client’s group. Thus, a secondee or contractor would normally be regarded as working for an employer rather than an external client.

In (ii), we consider that the absence of a practising certificate requirement for the reserved role of undertaking an actuarial valuation of trust-based funeral plans is anomalous given the reliance which is placed on the actuary’s work in order to justify an exclusion from FSA regulation. We understand that the Funeral Planning Authority reviews the actuarial reports obtained by its members, but membership is not mandatory and there is no statutory obligation or requirement for the actuary’s work to be reviewed by the auditor.

3b) the conditions which should apply to the issue of practising certificates, including reliance on the professional quality assurance requirements operated by actuarial firms, and the extent to which reliance may be placed on these and on senior actuaries in firms to support and confirm compliance of individual actuaries with their professional responsibilities.

We consulted under this proposal in Option 2E in our discussion paper, and the majority of those responding agreed with this approach. We noted that many if not all firms which provide actuarial services to external clients have established professional quality assurance arrangements which are intended to support and confirm compliance of individual actuaries with their professional responsibilities.

We believe that the Profession should consider ways of promoting these arrangements in order to support confidence in the work of consulting actuaries and to enhance and confirm the compliance of its members with their individual responsibilities. However, there is a need for guidance, particularly for smaller firms.

It would be for the Profession to determine the appropriate conditions. However, based on the FRC's Actuarial Quality Framework (<http://www.frc.org.uk/pob/actuaries/drivers.cfm>), the Profession should consider the following matters:

- a senior actuary to provide professional leadership within the actuary's firm;
- arrangements for handling conflicts of interest, and confidential information;
- controls on competence and quality control, such as checks on individual actuaries' work;
- management of customer relationships, including terms of reference, complaints handling and compensation for shortcomings; and
- arrangements to support communications with regulators and whistle-blowing.

Consideration of these matters should also pick up the points we made in our progress report in January 2008 (http://www.frc.org.uk/pob/actuaries/ap_progress.cfm) about the role of senior actuaries, and whether, and if so when, actuaries would need professional indemnity insurance.

4. As part of its wider review of regulatory priorities, and its regulatory activities generally, the Profession should consider the working environment for actuaries as a driver of actuarial quality and a means of supporting and confirming its members' compliance with their individual responsibilities.

As highlighted in the FRC's Actuarial Quality Framework and discussed above, we consider that the working environment for actuaries is a key driver of actuarial quality.

We have expressed the view, in the context of the Actuaries' Code, that the Profession needs to consider the purpose of its professional requirements, and the nature of the general and specific threats which it is seeking to address through its regulation, as well as the scope and implications of actuaries' links with their employers (or other significant parties) for each aspect of their professional conduct.

Individual actuaries already rely on their employers to support them in complying with their professional responsibilities. For example, although the draft Actuaries' Code requires individuals to respect confidentiality, they in turn need to make judgments about the integrity of their employer's electronic and paper filing systems, and about the integrity of their colleagues. There are similar dependences in relation to the Code's requirements on the manner in which professional actuarial and related services are promoted; agreeing terms of reference; ensuring that actuarial work is undertaken with competence, skill and care; identifying and dealing with conflicts of interest; reporting concerns in the public interest; and ensuring that communications are clear and not misleading. These dependencies are particularly important for external users of actuarial work, who have no direct control over the way these matters are managed.

We also consulted on whether firms should be permitted to hold a practising certificate on behalf of their actuaries under Option 2G. We consider that this might be an effective and proportionate way of introducing a general practising certificate for consulting actuaries, which would meet our aim of ensuring that external users can rely on actuaries to have proper quality assurance arrangements for their work, without the need for extensive monitoring by the Profession.

In the feedback we received, there was significant interest in this idea. However, it is for the Profession to determine whether it should require all consulting actuaries in a firm to hold a practising certificate (as with lawyers), or allow them to rely on senior actuaries to hold a certificate (as with accountants), or to establish some form of voluntary registration arrangement under which firms themselves can provide the relevant confirmation. We note that the Profession currently promotes nearly 70 actuarial firms on its 'find an actuary' web pages, in reliance on a general disclaimer rather than seeking confirmation from the firms concerned that they will support individual members in complying with their professional requirements.

Impact assessment

The aim of our proposals is to enable users to rely on proper quality controls over professional actuarial work. The proposals do not directly affect actuaries who provide internal actuarial services solely for the use of their employer (unless they perform a reserved role), or actuaries whose work is not presented as having been undertaken in a professional actuarial capacity, since users do not place the same degree of reliance on these actuaries to have professional quality controls. This should enable the Profession to tailor its requirements in a more targeted and proportionate way.

Our preliminary assessment is that the funds which depend on some form of substantive actuarial assessment in the UK may be as much as £3 trillion. Consequently, the benefits to users, even for a very modest improvement of confidence in the reliability of actuarial work, are potentially very large indeed. We consider that the substantive costs of our proposals on compliance review and practising certificates would be negligible since firms we spoke to said they aim to have proper quality assurance controls already. To the extent that some smaller firms do not have such controls, the proposals would reduce the costs of professional shortcomings.

The costs of independence restrictions, and the administrative costs of our other proposals, would depend on the way in which the Profession chooses to respond to our recommendations. We expect the Profession to ensure its proposals are proportionate to the size and the scale of the entities involved.

Active external monitoring (Strategy 3)

As explained in our feedback statement, we have concluded that we should not recommend the establishment of an external inspection unit, either by the Profession or by another body, unless other proposals prove inadequate.

Next steps

The Profession has agreed to consider our recommendations carefully and expects to have developed initial proposals and a clear timetable for its work by the end of 2009. We intend to make a further report in 2010 once we have reviewed the Profession's proposals and their implementation.



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