

Minutes of a meeting of the Actuarial Council held on Tuesday 18 March 2014 in the Boardroom at Aldwych House, 71-91 Aldwych, London, WC2B 7HN

Present:

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

Observers:

Ben Kemp	Institute and Faculty of Actuaries (IFoA) (By telephone to minute 8)
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In Attendance:

Siân Barr	Project Manager, Actuarial Oversight, FRC
Francesca Chittenden	Council Secretary, FRC
Faye Dyce	Project Manager, Actuarial Policy Team, FRC
Robert Inglis	Project Director, Actuarial Policy Team, FRC
John Instance	Project Director, Actuarial Policy Team, FRC
Paul Kennedy	Director, Actuarial Policy, FRC
Melanie McLaren	Executive Director, Codes & Standards, FRC
Natasha Regan	Project Director, Actuarial Policy Team, FRC

Apologies for absence

Apologies were noted from Martin Bradley (Council Member) and Lee O'Rourke (HMT Observer).

1. FRC Principles for the development of Codes, Standards and Guidance

- 1.1 Melanie McLaren (MM) introduced a set of principles which had been developed for the purpose of guiding the FRC's decisions on when to issue, amend or withdraw Codes, Standards and Guidance. The Council noted that the principles had been developed through consultation across the FRC and had already been used, and proven to be effective, in assisting the FRC to demonstrate need and foster restraint.
- 1.2 The Council noted that, in accordance with the principles, the FRC will only consider making a change where it is satisfied that there is a clearly defined issue relevant to the FRC's mission and responsibilities. The Council questioned the appropriateness of this requirement, bearing in mind the broad scope of the FRC's mission statement, and the absence of direct reference to actuarial work within the mission statement. In

response MM referred to the FRC plan and the supporting strategies that set out how the FRC will work towards its mission. MM highlighted that the work to support the development of 'trustworthy information and behaviour' would include standards and where relevant guidance concerning actuarial work.

- 1.3 The Council also noted that the FRC was undertaking a review of the various routes through which the FRC issues or endorses guidance with the objective of identifying a set of principles and commonality of approach which would guide the future issuance of guidance. The Chair highlighted that whilst a common approach for issuing guidance may not be reached, it would be beneficial to understand the rationale for any differences in approach.

2. JFAR update report

- 2.1 MM referred the Council to the papers that had been considered by the JFAR on the 13 March and summarised the discussions held at that meeting. The Council noted that the JFAR had made good progress in developing the risk framework and in reaching a shared understanding of actuarial risks. The Council also noted that the JFAR had agreed in principle that the actuarial risks should be published in due course. MM reported that the JFAR would be undertaking a formal review, assessing its progress against its agreed objectives, in June and that the outcome of that review would be reported to the FRC Board.

- 2.2 The Council noted that the JFAR had:
- made progress in relation to the identification of 'hot spots' within the broader risk categories;
 - discussed potential actuarial risks related to annuities;
 - discussed the role of the actuary and the need for further work to clarify that role;
 - agreed to support the UK Forum on International Actuarial Standards and co-ordinate UK responses to international standards and developments.

- 2.3 The Council also noted that the FRC and PRA were looking at the range of information concerning actuarial work collected by the PRA in its monitoring of insurers and mechanisms for sharing that information to inform FRC's activities.

3. Development of shared actuarial risk map

- 3.1 The Council noted the consolidated summary of 14 JFAR risks and the provisional forward agenda for 2014.

4. FCA risks – hotspot on annuities

- 4.1 NR introduced the slides that were used by the FCA to present the findings of its 'Thematic Review of Annuities' to the JFAR. The Council noted that FCA had identified annuities as a hotspot for inclusion in the JFAR shared risk outlook and had identified a range of risk areas that have high actuarial involvement, including market changes such as the development of enhanced annuities and the impact / uncertainty resulting from Solvency II and other prudential rules.

- 4.2 NR summarised the JFAR discussion that followed the presentation and informed the Council that the JFAR had agreed / noted three actions:
- a. The FCA is to conduct a market study of retirement income in an attempt to determine whether there are obstacles to competition working more effectively for consumers and to identify 'theories of harm';
 - b. The FRC is to undertake a 'gap analysis' to determine whether the risks associated with annuities are within the scope of and / or adequately addressed in its Technical Actuarial Standards; and
 - c. The IFoA is to look at the role of the actuary in relation to annuities.
- 4.3 The Council discussed the concept 'theories of harm' and it was clarified that the term was alternative phrasing for 'issues that could result in customer detriment'. The Council noted that an objective of the FCA market study is to gather evidence concerning the potential risks and theories of harm to consumers that could be caused as a result of ineffective functioning of the annuity market.
- 4.4 The Council noted that the PRA had concerns over the quality of actuarial work in situations where there is limited data and around the robustness of judgements made. The Council also noted the potential conflict faced by actuaries in addressing the requirements of both the FCA and PRA.
- 4.5 The Council queried whether the JFAR would be addressing issues such as low interest rates linked with financial repression and mis-selling, and suggested that, if not, they may be areas the FRC might want to consider. Paul Kennedy (PK) noted that issues relating to low interest rates and mis-selling were covered in the existing risk map and JFAR forward agenda.

5. Emerging theme for actuarial risk map – role of the actuary

- 5.1 The Council noted that the JFAR had agreed that the IFoA should lead on a review of the roles and responsibilities of actuaries in relation to the high-level risks. However, the JFAR was inclined to encourage an approach whereby the role of the actuary is reviewed in relation to specific strands of actuarial work, rather than attempt to clarify the role of the actuary in a broad, conceptual sense.
- 5.2 The Council discussed the process for identifying emerging themes for inclusion on the actuarial risk map and prioritising risks already on the risk map. The Council noted that through regular working meetings with other regulators and various stakeholders it was expected that any issues would be brought to the FRCs attention, however it was suggested that further thought should be given to the development and maintenance of an 'issues' monitoring log. In relation to the prioritisation the Council noted that this was on the JFAR forward agenda.
- 5.3 It was highlighted that the Competition Commission had recently issued a paper relating to motor insurance which raised issues of relevance to the work of the actuary. The Council was unclear as to whether there would be any implications from the paper that would require response or action by the FRC, but suggested that the FRC might look into the issue further. MM agreed to look at this.

6. Information reporting arrangements with the IFoA

- 6.1 Siân Barr (SB) reported that the FRC was having preliminary discussions with the IFoA to establish a formal annual reporting package through which data, information and trend analyses would be shared. SB informed the Council that the proposed reporting package was not intended to be onerous for the IFoA and that much of the information has previously been provided to the FRC on an ad hoc basis.
- 6.2 The Council noted the combined list of information that the FRC considers necessary to inform its standard-setting and oversight roles and suggested that it would be helpful to include the rationale for collecting the various items of data. SB said that this was in hand.
- 6.3 PK reported that the information requirements are comparable to the information collected by accounting bodies; and that some of the data would be used to inform a current FRC thematic review of professional training in the accounting bodies.

7. Institute and Faculty of Actuaries observer report

- 7.1 BK drew the Council's attention to the forthcoming APS X1: Applying Standards consultation and highlighted the importance the new standard would have for IFoA members across the world.
- 7.2 BK also informed the Council that the IFoA was continuing to make progress with its development of Quality Assurance Scheme and a project on actuarial skills sets and that a series of 1 and 2 hour Professional Skills events had been organised in various locations around the UK.
- 7.3 The Council noted that the IFoA had established a working party to consider the options for the regulation of IFoA members carrying out the actuarial, internal audit, and risk management functions under Solvency II, and whether the IFoA should extend its practising certificates regime to cover any or all of these functions. BK reported that the PRA had also been considering the issue and was in discussion with the IFoA in relation to the proposals. The Council noted that, although the current Technical Actuarial Standards (TASs) had been written with the requirements of Solvency II in mind, there could be further issues requiring consideration. JI agreed to consider this further.

8. Actuarial standard-setting framework consultation – joint consultation

- 8.1 John Instance (JI) introduced a paper which set out a proposal to issue a joint FRC / IFoA statement on the framework for actuarial codes and standards, rather than issue a substantive consultation paper as had previously been considered.
- 8.2 The Council noted that the FRC and IFoA had been unable to identify any sufficiently substantive issues to include in a joint consultation and had accordingly suggested that it would be more appropriate to issue a joint statement on the respective frameworks and roles instead. The Council acknowledged the rationale behind the change of approach and supported the development of a joint statement which would include:

- a statement of the FRC and IFoA roles and a common vision for actuarial standards including an intention to adopt consistent approaches where possible on issues such as defining actuarial work;
 - a joint approach to influencing and recognising international actuarial standards;
 - the broad approach to when the FRC would include ethical and conduct materials in its standards; and
 - the broad approach to guidance, including when the IFoA would be permitted to issue guidance on recommended methodologies to support compliance with FRC standards.
- 8.3 The Council noted that the FRC and IFoA would not be actively seeking views on the joint statement and accordingly suggested that the documentation accompanying the statement be revised simply to state that views are welcomed.
- 8.4 The Council noted three proposed circumstances in which the FRC and the IFoA might agree that ethical and conduct matters should be addressed in FRC standards and that those circumstances would generally be determined by agreement between the FRC and the IFoA, and would follow the FRCs usual process and criteria for issuing standards. The Council considered the list of circumstances to be appropriate but suggested that it should be explicitly stated in the documentation that the presumption would remain that the IFoA is responsible for the development of ethical standards. The Council also suggested that the FRC's reserve power to issue ethical standards without IFoA agreement should be referenced within the statement.
- 8.5 The Council endorsed the suggested approach to technical guidance which set out that: i) the FRC would retain its ability to provide guidance on the application of the TASs in circumstances when it is considered that the guidance is needed to clarify or underpin the quality of work provided to users; and ii) the IFoA would provide technical guidance for its members, relating to the methodologies that are applied to particular areas of work, where the FRC is satisfied that the guidance will create significant additional benefits in the public interest through improved quality of work and better compliance with the TASs. The Council discussed whether a more disciplined framework, that the FRC and IFoA could be held accountable to, should be developed but concluded that the criteria for issuing guidance are sufficient. However, the Council did suggest there needs to be clarity on what constitutes guidance and what does not and that this distinction should be set out in the joint statement.
- 8.6 Subject to the amendments suggested, the Council endorsed the overall approach set out. The Council noted that a revised draft would be brought to the Council at its May meeting for formal advice.

9. Actuarial standard-setting framework consultation – FRC consultation

- 9.1 Robert Inglis (RI) introduced the latest draft consultation paper, including the proposed Technical Actuarial Code (TAC) and draft advice from the Council to the FRC Board for the Council to consider. RI informed the Council that the documents presented had been revised to reflect the discussions of the Council in February.

- 9.2 The Council was invited to consider two specific issues, the order of the contents of the consultation and the approach to describing the scope of actuarial work to which the TAC applies. The Council discussed the proposed ordering and although the Council acknowledged that the extension of scope is the most significant issue addressed in the consultation, the Council considered that it is appropriate to discuss that issue after a discussion of the proposed framework. Accordingly, the Council suggested that the consultation document should open with the detail of the proposed framework and the rationale for the change, and be followed by a discussion on the extension of the scope of the TAC before the TAC is presented.
- 9.3 The Council noted that the proposal to make the TAC applicable to all actuarial work would need to be addressed in a number of documents including the TAC itself, the FRC's standards framework, the FRC's consultation paper and the joint FRC / IFoA statement. Accordingly, it is important that the presentation of the scope of its applicability is worded in a clear and concise manner that is not open to misinterpretation. The Council discussed three proposed options for presenting the scope and the advantages and disadvantages of each option. Through discussion of the options the following observations were made:
- Option 1**, which positions the applicability of the TAC very broadly to include actuarial work by non-actuaries and entities advised by actuaries, could leave IFoA members uncertain; and without the additional criteria in Option 2, allows too much scope for the actuary to test boundaries.
- Option 2**, which describes three circumstances in which work must comply with the TAC, is simple and understandable; it doesn't rely on a definition of actuarial work which is either problematic or non-circular. The language provides a sense of clarity which would not leave the actuary uncertain, although it was potentially too narrow and may not meet the post-Capri intention to apply FRC standards to a broader range of work. There was also a question of whether 'actuarial techniques' would need to be defined or explained.
- Option 3**, which creates a high level test but leaves IFoA members to exercise their judgement in determining the circumstances and extent they are required to apply, is too circular and could be misinterpreted.
- 9.4 Following consideration of the observations made, and the ability to rely on the application of each option in a contested situation, the Council provisionally concluded that the proposed wording at option 2, amended to include some of the broader context from option 1 which had previously been agreed by the Council, would be the best option, provided the text retains the clarity of option 2. The Council considered that the amalgamation of the two options would enable actuaries and non-actuaries alike to be confident in reaching a judgement on whether their work meets the TASs, and whether the preparer of the work has used appropriate skills and actuarial techniques. The option would also enable entities and non-actuaries undertaking actuarial work to adopt the TAC.
- 9.5 Referring to the content of the consultation document the Council suggested that it could be strengthened by providing detail of the benefits the proposed framework will bring, particularly the benefits of having TASs which are targeted to specific practice

areas. The Council also suggested that the consultation should include detail of the specific practice areas the FRC is considering developing specific TASs to address; including reference to the intention to review the Pensions TAS in the light of developments in the regulatory approach to scheme funding. The Council discussed whether or not there should be direct reference to the risks being developed by JFAR and the process used to identify those areas of work requiring specific TASs. However, the Council considered that a more high level reference would be more appropriate at this stage given that the risk outlook was still work in progress.

9.6 The Council noted that colleagues in the FRC's Conduct Division had suggested that the wording around proportionality and materiality be limited to reporting matters and that alternative language, proposed by those colleagues, would be considered by the Standards Framework and TAS Review Working Group.

9.7 David Hindley (DH) Chair of the Standards Framework and TAS Review Working Group placed on record his thanks to the team for their work in progressing the documents.

10. Director's report

10.1 PK introduced a report to the Council that covered FRC activities, relevant to the work of the Actuarial Council, since the last meeting on 14 January, and a summary of progress against the Actuarial Policy team's 2013-14 objectives.

10.2 PK invited the Council to comment on whether the FRC should respond to the FCA's recently published market study on GI add-ons. The Council noted that the FCA's proposal to require publication / disclosure of claims ratios might have implications for actuarial work and potentially the work of other finance professionals. Following a brief discussion it was concluded that as they stand, the FCA's proposals do not fall within the remit of the FRC. However, the Council suggested that the FRC should respond to alert the FCA that if it takes the proposals forward, the work may be subject to the TASs and also that the FCA may wish to consider the monitoring and validation of the information reported.

11. Report of the ASG meeting held on 26 January 2014

11.1 The report of the ASG meeting was noted. The Council also noted that Debbie Harrison, an affiliate of the Financial Services Consumer Panel and the CASS Business School, had joined the ASG.

12. Minutes of the special Actuarial Council meeting held on 11 February 2014 and rolling actions

12.1 The minutes of the special Actuarial Council meeting held on 11 February 2014 were approved as an accurate record of the meeting.

12.2 The Council noted the status of the actions listed on the rolling action log.

13. Actuarial Council Working Groups review

13.1 The Actuarial Council Working Group memberships were noted. The Council also noted that the FRC would consider recruiting members of the Actuarial Stakeholder Group to the Working Groups where appropriate.

14. Forward Agenda

14.1 The forward agenda was noted.

15. Any other business

15.1 There was no other business.