

Minutes of a meeting of the Actuarial Council held on Tuesday, 8 May 2018 at the FRC Office, 8th Floor, 125 London Wall, London E2Y 5AS

Present:

Olivia Dickson	Chair of Council
Rosemary Beaver	Member (via teleconference)
Martin Burke	Member (From Minute 2)
Angela Darlington	Member
David Hindley	Member
Dominic Veney	Member

Observer:

John Coomber	Observer
Des Hudson	IFoA Observer
Stephanie Paul	HM Treasury Observer

In attendance:

Siân Barr	Project Director, Professional Oversight Team
Hazel Beveridge	Project Director, Actuarial Policy Team
Anu Bhartiya	Council Secretary
Susan Currie	Chief of Staff (for minute 7 only)
Melanie McLaren	Executive Director, Audit & Actuarial Regulation
Ann Muldoon	Director of Actuarial Profession
Erica Nicholson	Project Director, Actuarial Policy Team
Bex Smart	Risk & Assurance Manager (for minute 7 only)
Simon Wasserman	Project Director, Actuarial Policy Team

1. Welcome and apologies for absence

- 1.1 The Chair welcomed John Coomber as the Council Chair designate. She informed the Council that she has indicated her intention to stand down having served six years as Chair of Actuarial Council. The Board has supported the recommendation of the Nominations Committee and approved the appointment of John as Chair of the Council with effect from 1 July 2018.
- 1.2 Apologies were noted from Council Members Ashok Gupta and Joanne Livingstone.

2. Declaration of conflicts of interests

There were none to be reported.

3. Update from the Chair

- 3.1 The Chair provided a brief update on the government's announcement of the independent review of the FRC's governance, impact and powers, which would be led by Sir John Kingman. The Council noted that the review will ensure that the FRC is put in a position to stand as a beacon for the best in class for corporate governance and transparency. The Chair confirmed that all activities of the FRC were in scope, including activities in relation to its actuarial responsibilities.

4. The IFoA's consultation on monitoring

- 4.1 Ms Barr introduced the paper and drew Council's attention to the proposed phased approach to the implementation of the different categories of monitoring. She opened the discussion by inviting Council's comments on whether there were any flaws in the

persuasiveness of the IFoA's draft consultation material or any compelling reasons to delay the public consultation.

- 4.2 Mr Hudson explained that the more detailed aspects of the monitoring work would benefit from longer development time and that a benefit of a phased approach would be that lessons could be learned from the earlier phases of the implementation. Phasing would be risk based, allowing initial focus, through thematic reviews, on the issues judged to be of most importance from a public interest perspective and practicality of implementation. He further informed that the wording of specific references to other regulators in the draft consultation would be confirmed with those regulators before publication.
- 4.3 The Council considered the IFoA's draft consultation document and noted that Council's suggestions made in January 2018 had been sufficiently taken into account. Through discussion, the Council raised a number of queries and made some comments and suggestions including:
- The FAQ question 17 *'Why is the IFoA doing this now'* could be set out in the beginning of the document.
 - Cost benefit analysis: A member of Council suggested that this could be better articulated in the document and could include examples to better enable individual actuaries to assess the likely time cost to their practice.
 - Monitoring Team: The Council considered that the work of the Monitoring Team could be described more clearly to make the proposal more persuasive and inspire confidence amongst members of the profession. The Council suggested clarifying the difference between differences in opinion and inappropriate judgements and that actuaries' judgements would be reviewed by those with sufficient experience to do so. Further, it should be clarified that the monitoring work would be resourced in a way which would be efficient, add value and avoid second guessing of sound judgements.
 - "Peer reviewed report" by monitoring team: It was suggested that the peer review of the monitoring report which would be provided to the PC holder with a summary of the Reviewers' findings and best practice recommendations, could be better emphasised in the document.
 - PC renewal process: It was suggested that the circumstances when issues identified by the Review Team would be taken into account in the PC renewal process for an individual should be clarified.
 - Implementation of monitoring: A Council member considered that it would be helpful to provide some indication of timelines for the phased implementation of monitoring.
 - Confidential and/or Sensitive information: The review may include dealing with clients' data. The consultation document could clarify the requirement of obtaining clients' consent as a part of the process. Further, the statement in respect of the IFoA having in place appropriate insurance to cover its monitoring activities, could be better articulated by emphasising the checks and balances in place considering the risks to actuaries, so that inappropriate judgements are not made public in the first place.
 - Structure of the proposals: It was suggested that the analysis of information gathered, in the bottom row of the paper's "diagram 1.1", could be shown in a proportionate way.
 - Risk classification: Council considered that Appendix 3 was difficult to understand, particularly the tabular information. Mr Hudson informed that Appendix 3 is still under review. It was suggested that the work to be in scope on the implementation date be clarified and the graphic on the method of risk analysis should be presented in a more understandable way. Concern was expressed that review of work based on risk classification could be interpreted as rating the riskiness of businesses.

- Benefits of the proposals against impact: It was suggested that the order of the summary of benefits of monitoring as listed in section 5.1 of the document could be reviewed. The Council also suggested highlighting the aspirations of the profession and protecting public interest aspects within this section.
- Thematic reviews: The Council noted that the thematic reviews will be carried out only with the agreement of participant organisations and/or individual actuaries. From the perspective of regulation and enforcement, the IFoA will report to the FRC on participation and non-participation rates in relation to thematic reviews.
- Reasoning for the proposed regime: It was suggested that question 1.3 should be the first one in the questionnaire.

- 4.4 The Members agreed to send any detailed drafting suggestions to the Secretary for forward submission to the IFoA.
- 4.5 The Council discussed whether there was any concern sufficiently material that the consultation should be delayed and concluded that this was unnecessary as there would be sufficient time to resolve outstanding matters prior to implementation.
- 4.6 Subject to the above discussion, the Council advised the Conduct Committee that the IFoA's draft consultation material makes a sufficiently persuasive case for a credible regime to monitor actuarial work effectively in the public interest.
- 4.7 Mr Hudson agreed to take the above suggestions into consideration while finalising the consultation document. The Chair thanked Mr Hudson for developing the document after a period of engagement between the FRC executive and the IFoA. Mr Hudson thanked the Council for sharing their views and providing support to the consultation as required.

5. AS TM1 – Comprehensive review of assumptions

- 5.1 Mr Wasserman introduced the paper highlighting that the paper principally reviews the assumption on mortality in retirement. The Council considered the paper and in particular discussed the following questions as part of the discussion:

Does the principle that the AS TM1 basis for mortality improvements references the annually updated CMI mortality projection model continue to be appropriate?

- 5.2 The Council advised to continue to use the annually updated CMI mortality projection models as the basis for SMPs.

In light of that principle, is it still appropriate to move to the latest CMI mortality projection models, CMI_2016 and CMI_2017 for projections from 6th April 2018 and 6 April 2019 respectively?

- 5.3 The Council discussed the latest CMI mortality projection models and suggested that the executive seek further clarification on the market adoption of the projection model and provide an update at the next meeting.

Is it appropriate to use the default values for the parameter S_K in CMI_2016 and CMI_2017 where there are options to change the parameter?

- 5.4 The Council discussed the practical implications of changing the default values from the recipients' perspective. The Council agreed that the default values should not be changed unless there were compelling reasons to do so. It was noted that the members of the practitioner working group had agreed that the default value of 7.5 in the Core Model should be the most appropriate; the sensitivity is not so big that AS TM1 needs to consider deviating from this core value. The Council discussed the matter in detail and concluded that there were no sufficiently compelling reasons to

change and advised that the Core projection model, which uses the default value, remains the most suitable basis for CMI_2016 and CMI_2017 in an SMPI context.

Is it appropriate to continue to set the long-term improvement factor at 1¼% and to have the same factor for men and for women?

5.5 The Council advised that the FRC should continue to set the long-term improvement factor at 1¼% for both males and females for projections from 6 April 2018 as practitioners would have already commenced preparing projections on this basis. However, in order to change the assumption projections with effect from 6 April 2019, there would be a need for a compelling case for change and rationale to support the change. Council understood the difficulty of obtaining market information on this factor in the pricing of annuities due to its commercial sensitivity. It was noted that consultancies undertake benchmarking survey on life expectancies which could provide a better evidence base to link annuity pricing and the CMI table. The Council suggested coordinating with JFAR members and consultancies to seek further evidence. It was noted that the FCA had reported that they had not reviewed the latest CMI model and the S_k factor and did not have any plans in the near future to do so. It was agreed that a further paper would be presented to the June council meeting on this point setting out any additional market information available.

5.6 The Council noted that in future the annual review of assumptions would take place in the Spring, followed by a consultation in Summer where applicable and final paper in Autumn for implementation in the following year.

Are there any other changes that should be made to AS TM1 assumptions?

5.7 The Council considered a case where the provider cannot determine the actual expenses of the product, whether the fall-back assumption rate be reduced from 1%pa to 0.75% pa for modern products. The Council advised that there were no compelling reasons for change. The Council supported the view that no other changes be proposed at this time.

5.8 Mr Wasserman agreed to take the above discussion into consideration while drafting the paper for the June Council meeting. The Chair thanked Mr Wasserman for providing the comprehensive paper collating the background information and the history of assumptions underlying AS TM1.

6. ISAP 4 Exposure Draft

6.1 Ms Nicholson introduced the item summarising the key points of the paper and noting that ISAP 4 expands on the minimum guidance in ISAP 1 for actuarial services in relation to IFRS 17. Whilst some of the guidance in ISAP 4 is helpful and appropriate, some of the guidance seems to be paraphrasing the requirements of IFRS 17. This may lead to confusion between the two standards and could result in ISAP 4 being perceived as interpreting IFRS 17.

6.2 In response to a query as to how an international standard would promulgate into a UK standard, it was clarified that the UK would not necessarily adopt the standard as it is, but adopt it in the form of a SORP or a guidance. UK standards are principles based. It is desirable for UK standards to be substantially consistent with international model standards, where this is appropriate. The FRC and the IFoA will respond to the Exposure Draft to influence the drafting. Later, IFoA and FRC will consider whether the UK can assert substantive consistency and whether to make changes to the TAS's achieve this. It was noted that the IFoA is represented on the IAA ISAP 4 working group and the IFoA will be coordinating with their representative to influence further.

- 6.3 The Council discussed the post implementation review of the technical actuarial standards and the timeline for the implementation of the ISAP 4. Consideration would also be required to be given to the FRC wide project on the IFRS 17 in the UK and the outcomes of Brexit and its transition period.
- 6.4 With respect to the response to the Exposure Draft, the Council discussed whether the removal of the duplication of IFRS 17 standards and ISAP 1 from ISAP 4 would leave just accounting judgements and no actuarial matter for consideration. It was noted that there had been lot of work contributed to the development of the Standard and therefore, it would be appropriate to comment on the content of the Exposure Draft. The Council queried whether the style of FRC's comments could be more direct and advised that the response should highlight that the standards should not be unnecessarily duplicated.
- 6.5 Ms Nicholson agreed to take the above comments into consideration while finalising the response to the Exposure Draft.

7. Risk Management Report

- 7.1 Ms Currie introduced the paper summarising the key risks related to the FRC's responsibilities for technical actuarial standards identified from a review by the Actuarial Policy Team. The review included consideration to the Actuarial Risk Identification Architecture and the FRC Risk Universe and other developments within the FRC. It was noted that the Audit Committee would be considering the Council's feedback and will recommend to the Board any changes to the Principal Risks.
- 7.2 The Council considered the paper and made a number of comments and suggestions including:
- The risk that the actuarial enforcement regime is not well directed / cost effective within the FRC and / or the IFoA, could be included within the risk register.
 - Arising from the actuarial monitoring consultation, the risk that the consultation feedback is so negative that the IFoA is compelled to modify the monitoring in a way that could make the regime less credible / effective.
 - Although the Principal Risk 5 includes the risk that policy and standards that could be misguided or ineffective, the Council debated situations and examples of AS TM1 when there is a misunderstanding or an expectation gap around a standard and the FRC's scope is inadequate to enable it to provide comprehensive illustrations.
 - The risk of over-regulation which could reduce the attractiveness of the profession to new recruits. It was noted that a similar risk in relation to the audit profession is included in the risk register and it would be reasonable to add the actuarial profession to that risk.
- 7.3 The Council discussed the wording of the Principal Risk 6 and debated whether the word 'ill-founded' was appropriate. The Council agreed that the word was used in relation to the actuarial decisions made based on unreliable information, hence the use of the word 'ill-founded' was appropriate. The Council was supportive of the revised wording of Principal Risk 6 as presented in the paper.
- 7.4 Ms Currie agreed to take the above feedback into consideration in presenting the paper to the Audit Committee. The Chair thanked Ms Currie and Ms Smart for their contribution to the paper.

8. Update from the Executive Director, Audit & Actuarial Regulation

There was nothing further to update under this item.

9. Report of the Director of Actuarial Policy

- 9.1 Ms Muldoon highlighted a number of points from her report to the Council including:
- The AAE had established a working party to consider 'The role of the actuary' and the FRC will be working closely with the working party.
 - The Civil Liability Bill was introduced to the House of Lords in March 2018.
 - The FRC will be responding to recent communication referencing the TASs.
 - The FRC, together with Lloyd's, PRA and the IFoA is organising roundtable discussion with GI Actuarial Function Holders (AFH) and Non-Executive Directors to seek further engagement on users' views of the Actuarial Function Report and work with the AFH to consider how to satisfy the regulatory requirement in an effective way.
- 9.2 Ms Muldoon provided an update on the JFAR meeting held on 27 April 2018 which included:
- A presentation from CMI and Club Vita on changes in trends in mortality;
 - Mouna Turnbull from tPR presented the proposals in the White Paper on Protecting Defined Benefit Pensions Scheme related to tPR;
 - The JFAR has agreed to set up a pension working group as a forum to share information on pensions developments;
 - A discussion on the best way to publicise the JFAR Risk Perspective;
 - The DWP is invited to join the JFAR for the next few meetings.

10. Update from the Director of Professional Oversight

Ms Barr provided a brief update on two ongoing key projects i.e. assessing the IFoA's monitoring consultation material and assessing the IFoA's work on the revision of the Actuaries' Code and in particular on its draft guidance material.

11. IFoA Observer's Report

Mr Hudson provided a brief update on his report to the Council which included an update on the revision of the Actuaries' Code and response to the consultation on ISAP 4.

12. Update from the HM Treasury Observer

Ms Paul reported that the HM Treasury is aware that the IFRS 17 standard presents challenges to insurance companies and is in regular contact with the insurers.

13. Council Effectiveness Review

The Council Effectiveness Review log was noted.

14. Minutes of the Actuarial Council meetings and rolling action log

14.1 The minutes of the meeting held on 8 February 2018 were approved for publication.

14.2 The rolling action log was noted.

15. Forward Agenda

The Forward Agenda was noted.

16. Any other business

The Council noted that the topic on the revised FRC Information Policies would be considered at the next meeting.

17. Date of next meeting

5 June 2018