

**Minutes of a meeting of the Actuarial Council held on Tuesday 26 January 2016 at the FRC
Office, 8th Floor, 125 London Wall, London EC2Y 5AS**

Present:

Olivia Dickson	Chair of Council
Rosemary Beaver	
Martin Burke	
Angela Darlington	
Ashok Gupta	
David Hindley	
Howard Jacobs	
Joanne Livingstone	
Dominic Veney	

Observer:

Des Hudson	IFoA
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In attendance:

Francesca Carter	Council Secretary
Dawn Bardwell	Director, Oversight (minute 1 only)
Faye Dyce	Project Director, Actuarial Policy Team
Phil Fitz-Gerald	Head of Supervisory Enquiries
Robert Inglis	Project Director, Actuarial Policy Team
Melanie McLaren	Executive Director, Codes & Standards
Ann Muldoon	Director, Actuarial Policy Team
Natasha Regan	Project Director, Actuarial Policy Team

Introductions and apologies for absence

The Chair welcomed Phil Fitz-Gerald, Head of Supervisory Enquiries and FRC Future Leader to the meeting.

Apologies were noted from Martin Miles (Council Member).

1. FRC Review of Actuarial Oversight

- 1.1 Dawn Bardwell (DB) introduced a paper that provided an update on the FRC's review of its actuarial role. It was noted that the FRC had announced plans to consult publicly on its role in actuarial regulation in 2017 following publication of the revised TASs.
- 1.2 DB reported that FRC will work closely with the IFoA on the consultation project and that a steering group, formed of FRC staff and IFoA working group members has been established to progress the project. DB also reported that the IFoA intends to issue its own consultation in respect of its role in parallel. DB drew the Council's attention to a letter from Stephen Haddrill to HMT seeking views on the FRC's planned public consultation, it was noted that the response from HMT would provide input to the consultation questions.

- 1.3 DB reported that the FRC considers that key drivers for possible change to the FRC's actuarial activities include:
- A perception that the risk associated with actuaries and actuarial work, at least in some heavily regulated areas, may have decreased significantly since the time when the FRC took on its current role;
 - The Government's drive for deregulation;
 - A desire on the FRC's part to ensure that its role is fully understood, properly discharged and does not provide false comfort.
- 1.4 The Council noted that, in response to the review undertaken by the FRC's Professional Oversight Team in 2015, prior to the announcement of the 2017 review of actuarial regulation, the FRC had taken a number of steps to maximise the effectiveness of the FRC's current actuarial oversight role. Those steps include:
- Re-organising the basis of the FRC's interaction with those in senior IFoA roles.
 - Proactively seeking opportunities to input sooner, and at a more strategic level, to IFoA initiatives.
 - Arranging site visits to the IFoA's offices.
 - Holding actuarial briefing workshops for Conduct Committee members.
 - Establishing the Joint Forum on Actuarial Regulation.
- 1.3 The Council discussed the proposed approach to the review and the 'drivers for change' identified. The following observations and comments were made.
- The consultation will seek input in respect of both the FRC's actuarial standard setting role and its actuarial oversight role. The Council supported this approach, noting the interdependencies between the two roles.
 - It was important that the views of other relevant regulators are sought
 - The timing of the review was welcomed.
 - Systemic risk associated with actuaries and actuarial work may have increased in recent years and the review should consider this.
 - The review should consider how actuarial standard setting and oversight is undertaken internationally.
 - The review should seek to assess the value of independent standard setting.
 - It was noted that following clarification of the FRC's role consideration would have to be given to resourcing within the FRC.
- 1.4 DB thanked the Council for its input and undertook to keep the Council updated as the consultation project develops.

2. Report of the Director of Actuarial Policy

- 2.1 The Council noted a paper setting out an update in respect of matters and FRC activities relevant to the Actuarial Council's remit that are not covered elsewhere on the Council agenda. Particular attention was given to the following matters:

JFAR Review of DB to DC transfers

- 2.2 Ann Muldoon (AM) reported that the JFAR had discussed the paper considered by the Council at its November meeting in respect of the level of transfers from DB to DC schemes. The JFAR agreed that there should be regular, on-going monitoring of the level of transfer activity.

- 2.3 The Council noted that the executive had drafted a report on the results of the review and that it would be published in due course.

JFAR Review on Group Think

- 2.4 AM summarised the findings of the IFoA led review on Group Think as presented to the JFAR. It was noted that the IFoA review had identified that:
- Group Think is not specific to actuaries,
 - Group Think has potential public interest implications.
 - The role of employers in creating the issue was of bigger concern to respondents to the survey than expected.
- 2.5 The Council discussed the findings of the review and noted that the evidence gathering exercise had not identified regulatory pressure as a driver for Group Think and discussed possible reasons for this finding. The Council noted that the FRC is scheduled to meet with the PRA to discuss further and that feedback from that discussion would be reported back to Council.
- 2.6 The Council noted that the JFAR had agreed the IFoA recommendations which included awareness outreach programmes for its members, recognition of both individual and various institutional roles as part of the problem and solution, and support for members who have fresh ideas and wish to share those ideas within professional circles.

JFAR Review on GI Provisions

- 2.7 The Council noted that good progress had been made in respect of the JFAR review on GI Provisions.

FRC Matters

- 2.8 The Council noted that Natasha Regan (NR) would be leaving the FRC and that an open recruitment exercise for a permanent team member would be conducted. A contractor will be appointed to replace Steven Wilkinson on the Oversight team.

3. Technical Actuarial Standards

3A. Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100)

- 3A.1 Robert Inglis (RI) introduced paper 2A which set out the final proposed revised text of TAS 100. The Council noted that the proposed text and revised definition of Actuarial Work had been updated to reflect the discussion of the Council on 7 January.
- 3A.2 The Council discussed in detail the proposed amendments to the definition of actuarial work. The Council:
- Supported the insertion of the words 'performed for a user' into the first line of the definition.
 - Supported the change of the defined term from 'actuarial work' to 'technical actuarial work' to distinguish the FRC definition from the definition used by the IFoA in its standards.
 - Supported the revised order of 'exercise of judgement' and 'use of principles and / or techniques of actuarial science' to clarify that 'centrality' applies only to the latter.
 - Requested the second leg of the definition be revised to read 'which the user may reasonably regard as technical actuarial work by virtue of the manner of its presentation'.

Subject to those amendments the Council supported the revised definition of technical actuarial work. The Council noted that the definition of 'technical actuarial work' would be reviewed by FRC lawyers prior to publication.

- 3A.3 The Council suggested that the diagram setting out a comparison of the IFoA, International Association of Actuaries and FRC definitions of Actuarial Work (Appendix 2) be included in the consultation feedback statement.
- 3A.4 The Council discussed and supported the remaining proposed minor drafting changes to TAS 100.
- 3A.5 The Council noted that its final Advice in respect of TAS 100 would be sought at the March meeting for recommendation to the Codes & Standards Committee (CSC) and FRC Board. MM reported that ahead of its discussion of the final suite of revised TASs a training session was being provided for CSC members.
- 3A.6 The Council noted that progress was being made in response to the suggestion from CALM for further guidance and that an update to Council would be provided at the March meeting.

3B. Specific Technical Actuarial Standards Consultation

- 3B.1 Robert Inglis (RI) introduced paper 2B which included:
- The draft Specific TAS consultation covering paper.
 - Draft Exposure Drafts (EDs) for the revised Insurance, Pensions and Funeral Plan TASs.
 - Updated risk assessment matrices for insurance, pensions and funeral plans.
 - The draft glossary.
 - An updated project plan.
- 3B.2 The Council noted that, in response to discussions of the Council, design principles for the development of the Specific TASs had been included in the covering paper.
- 3B.3 The Council discussed the scope of the Specific TASs and the design principles. Through discussion it was suggested that it would be helpful to communicate through the design principles that the level of detail / specificity set out in the Specific TASs will vary depending on the level of risk associated with that specific area of work. The Council suggested this could be achieved by expanding the first principle to include detail of the risk assessment process that has been followed and by expanding the third principle to make clear that for provisions with the Specific TASs targeted in relation to areas of work that have been identified as being of high risk to the public interest. The Council also suggested that:
- Principles four and five could be strengthened by replacing the words 'generally' and 'may'.
 - A new principle should be inserted to state that whilst the TASs may include provisions that complement existing Regulation, regulatory requirements would not be duplicated in the Specific TASs.
- 3B.4 The Council considered the proposed exposure drafts of each of the Specific TASs. Through discussion the following observations and suggestions were made:

TAS 400 – Funeral plans

3B.5 It was noted that no significant changes had been made to the drafts of the Specific TASs considered by the Council in November other than changes to ensure consistency. It was also noted that the drafts would be circulated to practitioners for input.

TAS 300 – Pensions

3B.6 The Council noted that as part of the risk assessment process the work of the Government Actuarial Department (the 'GAD') on the quinquennial review of the National Insurance Fund had been identified as being of significant public interest. However, on the basis that this work is not conventional pensions work, it is not included in TAS 300. AM reported that, in light of the high public interest, the FRC is in discussions with the GAD to identify what, if any, standards should be applied and that options under consideration include writing a standard based on ISAP 2, directly adopting ISAP 2 or, including social security work within the scope of TAS 300. The Council discussed the issue in detail and suggested that the Executive revisit the risk assessment process, taking in to consideration the mitigations identified, and bring a recommendation back to the Council in March. The Council noted that, should a decision be taken to include this work within the scope of TAS 300 the timing of the publication of that TAS would likely be delayed.

3B.7 The Council requested that the Council receive at its March meeting a paper setting out all of the risks that have been reviewed and the assessments that have been reached in respect of those risks to ensure that a consistent approach has been taken in respect of all the Specific TASs.

3B.8 The Council discussed in detail whether Appendix A: Information to be included in the Scheme Funding report should be included as an appendix or whether the relevant requirements should be included within the scope of the TAS. Whilst it was noted that the Actuarial Stakeholder Group had previously highlighted the importance of the scheme funding report it was commented that a number of the items listed could be considered irrelevant and retaining the appendix would be inconsistent with the deregulatory agenda. AM undertook to review the information in Appendix A and to present a recommended approach to the Council in March.

3B.9 The Council noted and endorsed the remaining amendments made in response to the advice given by the Council and its November meeting and identified a small number of further drafting amendments.

TAS 200 - Insurance

3B.10 AM reported that, as discussed at the previous meeting, the insurance risk assessment matrix had been revisited and that four areas of work had been added to the scope. The Council noted and supported the proposal to include, within the provisions relating to the determination of the technical provisions for regulatory reporting, the work necessary to provide confirmation under the General Insurers' Technical Provisions (Appropriate Amount) (Tax) Regulations. The Council also supported the proposal to draft provisions for inclusion in TAS 200 to cover three areas of work relating to the fair treatment of policyholders.

3B.11 AM reported that the executive is considering whether provision 20 (pricing frameworks) is needed and that she had met with a number of actuaries working in the pricing field to discuss the matter. The Council discussed the outcomes of the discussions held and whilst it was noted that pricing frameworks are widely used and well communicated it was noted that this is not universal across the insurance sector. The Council advised that the Executive reassess the risks to the public interest arising from this area of actuarial work taking in to consideration

the mitigation that the FCA Regulations provide in respect of consumer treatment and protection.

3B.12 The Council noted that a set of provisions in respect of schemes of arrangements are currently being drafted following input received from Mark Allen, PWC. It is proposed that the provisions would also be applied to the areas of technical actuarial work relating to the determinations of the technical provisions for regulatory reporting under a common umbrella heading of 'Transformations'.

3B.13 The Council noted the changes that had been made to the draft of the Specific TAS in response to the advice given by the Council at its 7 January meeting. The Council supported the changes but suggested it would be helpful to discuss the draft Specific TAS with HMRC before it is issued for publication.

Generic points

3B.14 The Council noted that the estimated cost of implementation in respect of all of the Specific TASs had been set at 0-10% and that the consultation would include a question in respect of this. RI reported that evidence from the post-implementation review of the initial suite of TASs suggested the costs of implementation had varied between 0-10% depending on the size of the organisation and number of staff.

3B.15 The Council suggested that the style of each of the consultation papers should be consistent.

Consultation covering paper

3B.16 Through discussion it was suggested that:

- The paper should be revised to highlight the purpose of the exercise and remind readers what the new Framework is intended to achieve.
- The paper should highlight that standards are intended to mitigate risk and therefore should result in an increase in confidence in the profession.
- A narrative should be included that sets out how the scope of the Specific TASs has changed and what the impact of those changes will be. It was suggested it might be useful to extract relevant information from the impact assessments.
- The interaction between TAS 100 and the Specific TASs needs to be clearly articulated.
- The paper should provide more information in respect of the risk assessment process that has been followed and how the 'risk appetite' was determined.
- It would be useful to flag that the risk assessment score reflects the likelihood and impact of a risk at a given point and that, as the risk assessment process is ongoing, changes might be necessary to respond to new risks that are identified or changes in risk scores.

3B.17 The Council was content that the 'mapping documents' which set out where the requirements of the existing TASs have been moved to would be published on a consultation section of the FRC website and would be signposted in but not included as part of the consultation document given the length of the consultation documentation.

3B.18 RI and AM undertook to update the documents to reflect the advice of the Council and to bring the final full suite of documents to the Council for its formal Advice on 7 March.

4. FRC Response to the AAE Exposure Draft – European Standard of Actuarial Practice 3 (ESAP 3) – ORSA

- 4.1 Natasha Regan (NR) introduced a draft response to the Actuarial Association of Europe (AAE) Exposure Draft of European Standard of Actuarial Practice 3 (ESAP 3). NR reported that David Hare of the IFoA would be leading the work to update ESAP 3 and that the FRC had met with him in December to discuss the FRC's concerns and proposals and would continue to input to his work in early 2016.
- 4.2 Through discussion it was clarified that ESAP 3 applies to the scope of the work where work is defined as 'all actuarial activities performed by the actuary related to actuarial services' which excludes work performed by a non-actuary. It was highlighted that this is inconsistent with the FRC's TASs which apply to actuarial work, and includes in scope, for potential application by others, actuarial work that is not undertaken by an actuary, and that a decision would have to be taken as to whether the UK fully adopts ESAP 3. AM reported that the FRC and the IFoA are establishing a process to inform decisions relating to the adoption of international standards and ensure decisions are taken in a consistent manner.
- 4.3 The Council welcomed the response and commended the tone and approach of the response. NR reported that the FRC response would be submitted on 31 January and invited the Council to submit any further comments by email before that date.

5. IFoA Observer Report

- 5.1 The Council noted a report that provided an update on IFoA matters since the last meeting of the Council. DH highlighted that the IFoA had issued APS G1 – The Chief Actuary in Non-Life insurance (Version 1) and APS L1 – Duties and Responsibilities of Life Assurance Actuaries (Version 2) – both effective from 1 January 2016.
- 5.2 DH also highlighted that the IFoA had begun work in respect of its Risk Outlook. The intention is that the IFoA would use the Risk Outlook to inform its forward agenda and that the Risk Outlook document would be formally published annually. DH reported that any risks identified through the Risk Outlook would be highlighted to IFoA members in the form of 'risk alerts'. AM confirmed that the IFoA's Risk Outlook would be an input to the risk assessment process which will underpin the ongoing maintenance of the Specific TASs.

6. Minutes of the previous meeting and rolling actions

- 6.1 The minutes of the additional meeting held on 7 January 2016 were approved for publication.
- 6.2 The rolling action log was noted.

7. Forward agenda

- 7.1 The forward agenda was noted.

8. Any other business

- 8.1 The Council noted that the 2016 Council Effectiveness Review surveys would be issued before the end of the month.

9. Date of next meeting

9.1 The next meeting of the Actuarial Council was scheduled for 7 March 2016 at 1pm.