

**Minutes of a meeting of the Actuarial Council held on Tuesday 20 January 2015 in the Boardroom at 8<sup>th</sup> Floor, 125 London Wall, London EC2Y 5AS**

**Present:**

Olivia Dickson	Chair of Council
Keith Barton	
Rosemary Beaver	
Angela Darlington	
David Hindley	
Howard Jacobs	
Paul Johnson	
Joanne Livingstone	

**Observers:**

Ben Kemp	Institute and Faculty of Actuaries (IFoA) (To agenda item 6)
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**In attendance:**

Siân Barr	Project Manager, Actuarial Oversight (Agenda items 1 & 2 only)
Dawn Bardwell	Director, Oversight (Agenda items 1 & 2 only)
Francesca Chittenden	Council Secretary
Faye Dyce	Project Manager, Actuarial Policy Team
Chris Hodge	Executive Director, Strategy (Agenda items 1 & 2 only)
Robert Inglis	Project Director, Actuarial Policy Team
John Instance	Interim Director, Actuarial Policy Team
Natasha Regan	Project Director, Actuarial Policy Team

**Introductions and apologies for absence**

Apologies were noted from Martin Bradley, Ashok Gupta, Martin Miles (Council Members) and Melanie McLaren (Executive Director, Codes & Standards).

**1. Executive report**

1.1 John Instance (JI) introduced a report that provided an overview of FRC activities relevant to the remit of the Actuarial Council not covered elsewhere on the agenda. The Council noted the revised format of the report and welcomed the positioning of the report as the first item on the agenda.

1.2 The Council considered and noted the report; particular emphasis was given to the following matters:

1.2.1 Codes & Standards

The Council noted:

- The Codes & Standards Committee's quarterly report to the FRC Board.
- The FRC Board had agreed to issue version 4.1 of AS TM1 without consultation and that the revised standard had been published on 16 December 2014.

#### 1.2.2 December meeting of the JFAR

The Council considered a summary of the JFAR meeting on 17 December 2014. Through discussion of that summary the following observations and suggestions were made:

- It was noted that the December meeting was the first meeting since 'A risk perspective' had been published and that the JFAR was satisfied with the final paper. NR reported that the JFAR had discussed initial feedback to the discussion paper.
- It was noted that the JFAR had considered a paper on modelling for pension schemes. Whilst no specific actions had arisen from the discussion, the IFoA is considering whether there is potential to share experience of modelling in the insurance sector to produce guidance material for modelling for pension schemes.
- It was noted that the JFAR had discussed a paper on the risks associated with DB to DC transfers and had concluded that whilst the actuary is only part of the solution, there is a significant role for actuaries, in particular scheme actuaries, in helping mitigate those risks. The Council welcomed that the JFAR had identified a need for the matter to be considered again at a future meeting in conjunction with the DWP. In light of the timing of incoming legislation, the Council considered that the discussion should take place as soon as possible.
- It was noted that the JFAR had discussed a paper on the role of actuaries in DC pensions and that the FRC in its oversight role is discussing the preparedness of the IFoA as actuaries become more involved in DC pensions.
- It was also noted that the JFAR had received a presentation from the DWP on Defined Ambition and Collective Defined Contribution arrangements and a presentation from the FCA on the communications on savings business.

#### 1.2.3 The Council discussed its role in relation to the JFAR and suggested that it could be more effective if it had a greater insight to the views and perceptions of the JFAR. Accordingly the Council requested that:

- Future summaries of JFAR meetings include detail of actions arising.
- JFAR papers prepared by the FRC to be circulated to Council members for background information.
- The paper on DB to DC transfers that was presented to the December JFAR meeting should be presented as an agenda item at the March Council meeting. The paper should include a list of actions arising from the JFAR discussion and a view from the executive as to what the FRC considers the risks associated with DB to DC transfers to be.

#### 1.2.4 Peer review: Scheme Actuary work currently covered by APS P2.

Dawn Bardwell (DB) reported that:

- The FRC's Conduct Committee had considered and accepted the advice of the Council sub-group in respect of the IFoA's proposal to withdraw APS P2. In light of the advice received the Conduct Committee had advised that the Executive should liaise with the IFoA to identify an approach to the withdrawal of APS P2 and implementation of APS X2 that could be considered appropriate and achieved in an acceptable timeframe.
- The IFoA will be publishing APS X2 in January for implementation from July 2015.

- To support implementation the IFoA will be offering training at 'Current Issues in Pensions' seminars and via webinars.
- Whilst training on APS X2 will not be mandatory, the IFoA will signal to its members the importance of ensuring training is completed.

#### 1.2.5 Progress on recommendations arising from Capri

The Council considered an analysis of progress against the recommendations arising from Capri. JI reported that the analysis would be presented to the FRC Board at its March meeting and invited detailed comments on the document to be sent by email. The Chair suggested that the analysis could be improved if a third column was inserted providing detail on the impact of the various recommendations, JI undertook to develop this.

#### 1.2.6 Actuarial Stakeholder Group (ASG) Meeting

The Council noted a summary of the ASG meeting held on 5 November 2014. It was noted that the ASG has expressed concern in respect of the risks associated with changes in legislation relating to DB to DC transfers.

## **2. Horizon Scanning and Risk**

2.1 Chris Hodge (CH) provided an overview of work being undertaken to improve the FRC's approach to risk management and risk reporting. CH reported that the FRC Board had identified that there was scope to improve the current process for identifying and reporting emerging risks and that this process had also been identified as an area for improvement through the FRC's Council Effectiveness reviews. CH reported that further discussions with all three of the FRC's advisory Councils would be held to provide an opportunity for Members to contribute to the development of the approach to ensure it includes a mechanism through which contributions from Council Members can be gathered at an appropriate time and reported accordingly.

2.2 The Council noted that the proposed approach to the identification of emerging risk will be based on the 'STEEPLE' principles, an approach used by the Cabinet office to examine the context in which the organisation operates and identify some of the key issues that exist, or are emerging, in the external environment. The Council welcomed the initiative to improve the FRC's approach to risk management and provided a number of suggestions for CH to consider. The Council suggested that CH consider providing a mechanism through which the views of the Actuarial Stakeholder Group (ASG) could be fed in to the process.

2.3 The Council discussed its role in respect of risk, and whilst it was noted that its role is limited to the identification of risk, it was suggested that it could be more effective if:

- There is clarity as to what outputs the FRC would like from the Council in respect of risk and how those outputs will be used.
- There is clarity as to what inputs the Council will receive from the FRC including the ASG, noting the importance of 'joining up' and aligning views.
- There is clear process for the identification, gathering outputs and reporting of risk within the FRC.
- There is clarity as to what the responsibilities of the JFAR are in respect of risk identification and how this differs from the responsibilities of the Council.

2.4 CH thanked the Council for their useful comments and suggestions and undertook to consider the points raised by the Council in developing the approach.

### 3. Risk Perspective

3.1 The Council noted that the *Joint Forum on Actuarial Regulation: a risk perspective* discussion paper had been issued on 28 October and that a significant outreach programme was in place involving:

- Roundtable discussions with practitioners and users of actuarial work;
- Bilateral meetings with insurers and actuarial consultancies; and
- Presentations and break-out groups at regional actuarial societies.

3.2 NR reported that on the basis of feedback received so far, the discussion paper is welcomed and is perceived to be an important document. However, through outreach it has become apparent that there is a need to clarify the purpose of the document to address a possible misconception that members of the JFAR intend to regulate against all of the risks that have been identified.

3.3 As part of the outreach, and collection of feedback, the Council was invited to provide views on the discussion paper, and in particular, which risks the Council considers to be particularly important and whether there are any other risks the JFAR should consider.

3.4 Through discussion the following risks were identified by members of the Council as risks as of particular importance:

- Modelling. It was suggested that, as modelling underpins all aspects of actuarial work, the risks associated with modelling are fundamental. The following areas were noted:
  - Making assumptions for modelling is difficult. The actuary tries hard to mitigate but can't get rid of all the risk
  - Communication, particularly communications in relation to the limitations of assumptions and the limitations of models. It was suggested that actuarial communications often provide a sense of false certainty and do not put sufficient emphasis on the uncertainty surrounding the figures produced.
- Changes in the external environment (eg Political stability and changes in legislation). It was suggested that changes in the Government and corresponding changes in Government policy are of high risk to the public interest. One member highlighted that pension freedom changes are of high risk to the public interest and suggested that having regard to potential changes in Government and Government policy is important.
- Product design and distribution. This has been an issue in the past and may come up again, particularly with changes in the economic outlook. The role and responsibilities of of actuaries in this area needs to be clarified.
- Group think, including group think driven by regulation. It was suggested that insufficient consideration is given to mitigations for group think and that a balance as to promoting new ideas and evolving practice versus following best practice needs to be reached. It was also suggested that there is a need to highlight that the inability to speak up is not the only risk associated with group think.
- Changes in the external environment, and an inability to respond or act sufficiently quickly in response to those changes.

- 3.5 The Council commented that a number of the risks identified are inter-linked and suggested that it is uncommon for risks to operate and have a significant impact in isolation. Accordingly the Council suggested that the JFAR take a thematic approach and seek to identify where, referring to past events, a particular combination of individual risks or 'conditions precedent' have interacted. The Council suggested that by looking at past events and identifying a potentially toxic combination of risk factors, more effective mitigations could be developed. The Council cautioned that the combination of risks identified at 3.4, specifically modelling, group think, changes in the external environment and the inability to respond to those changes promptly, could be a potentially toxic combination.
- 3.6 Through discussion the Council identified the following potential risks that are not reported in the discussion paper:
- Potential risk to the public interest where pension trustees take decisions on behalf of scheme members when they are not sufficiently equipped to take those decisions.
  - Potential risks associated with public sector pensions, specifically the scale of public sector pension scheme members and the impact a minor change in judgment could have.
  - Potential risks arising from the culture of the actuarial profession, including pressures from clients and commercial pressure to perform in a declining market.
  - Potential risks arising from hyper-prudent regulation.
  - Potential risks arising from Statutory Money Purchase Illustrations (SMPIs) and the communication of the assumptions used in in SMPIs.
  - Potential risks that could arise should DC schemes fail to deliver what is expected.
- 3.7 The Council highlighted the importance of ensuring a wide range of stakeholders, including non-actuaries; provide feedback on the discussion paper and the Chair suggested referring to Actuarial Council's stakeholder engagement map to identify potential respondents.
- 3.8 The Council considered whether to submit a formal response to the discussion paper, however, it was concluded that it would not be appropriate to do so given the Council's involvement in the development of the discussion paper and role in relation to considering feedback.

#### **4. Consultation on the specific technical actuarial standards**

- 4.1 Robert Inglis (RI) introduced a paper that set out the proposed scope of actuarial work that might be included in the revised specific technical actuarial standards (TASs). The Council noted that the proposals are in the early stages of development and will be informed by responses to the consultation which will close on 8 March and that separate consultations on each of the specific TASs will follow in due course.
- 4.2 RI drew the Council's attention to the following three appendices:
- a) An analysis of work in the scope of the four existing specific TASs, including detail as to whether that work was identified in the *Joint Forum on Actuarial Regulation: A risk perspective* discussion paper.
  - b) An analysis of the hotspots set out in the *Joint Forum on Actuarial Regulation: A Risk perspective* discussion paper against the scope of the existing Specific TASs.

c) A list of areas of work that might be in the scope of the revised specific TASs.

4.3 The Council were invited to advise whether, on the basis of the information provided, the Executive should continue with the proposed approach and consult on specific TASs for pensions, insurance (which would cover life and general insurance) and funeral plans.

4.4 The Council considered the cover paper and the three appendices. The following observations were made and advice was given:

- It was noted that, in addition to the specific TASs on pensions, insurance and funeral plans, further specific TASs may be developed for areas of work that have been identified as being of high risk to the public interest through the consultation.
- The Council discussed whether reserved work should be excluded from the scope of the Pensions TAS. Whilst it was recognised that not all pensions related work is considered to be of high risk to the public interest, the Council felt uncomfortable in excluding reserved work from the Pensions TAS entirely and suggested the scope include work reserved by regulation.
- Referring to the earlier discussion and the identification of modelling as a risk to the public interest, the Council discussed whether a modelling guide or code should be developed or whether it is sufficient for sub-sections on modelling to be incorporated in to sector specific TASs. Whilst it was noted that modelling relates to all areas of actuarial work, the Council considered that users would prefer the inclusion of sub-sections in specific TASs relating to modelling relevant to that sector, on the basis that this would simplify compliance as practitioners would only have to refer to one TAS and this would reduce the need for practitioners to read a TAS of which only part is relevant. In reaching this conclusion, it was also noted that high-level generic principles in relation to modelling are included in TAS 100.
- The Council advised that principles on Transformations should be included in the sector specific TASs rather than in a separate Transformations TAS.
- The Council noted, and was content with, the proposed approach to the development of further specific TASs and suggested that, pending feedback from the consultation, consideration be given to the development of a specific TAS on expert witness work.

4.5 On the basis of the discussion the Council confirmed that it was content for the Executive to proceed as proposed, noting that the approach may need to be revised in response to feedback received in response to the consultation. The Chair invited the Council to email any detailed comments to RI.

4.6 The Council noted that consideration was being given to the establishment of three working groups to support the development of the three specific and that further detail would follow in due course.

## **5. IFoA Observer Report**

5.1 The Council noted a report that provided an update on the activities of the IFoA since the last meeting of the Council in October. Ben Kemp reported that:

- Publication of APS X2: Review of Actuarial work is imminent.

- A consultation on the proposed introduction of a mandatory Actuarial Profession Standard (APS X4) and supporting guides in relation to trust-based pre-paid funeral plans work opened on 30 November, active discussions are being held.
- Two consultations on the Regulation of Chief Actuaries and Chief Risk Officers in organisations affected by Solvency II have been issued. The proposals set out in the consultations are aligned with the PRA's supervisory regime.
- The Quality Assurance Scheme pilot programme is progressing.
- A disciplinary case concerning failures to comply with the Technical Actuarial Standards is underway.

## **6. Minutes of the previous meeting and rolling actions**

- 6.1 The minutes of the Council meeting held on 21 October 2014 were approved as an accurate record of the meeting.
- 6.2 The Council reviewed and noted the rolling action log. All actions had been completed or were addressed on the agenda.

## **7. Forward agenda**

- 7.1 The Council noted the forward agenda.

## **8. Council Effectiveness review**

- 8.1 The Council considered the findings of:
- The Actuarial Council effectiveness review survey,
  - A note produced by the Chair summarising the findings of the review (including one to one discussions with Members) and recommendations arising from the review;
  - An extract from the minutes of the CSC discussion of the Council effectiveness review findings.
- 8.2 The Council agreed that the note produced by the Chair covered all matters that had been raised by the Council and fairly reflected the views of the Council.
- 8.3 The meeting moved on to private session so that the Council Members could discuss the effectiveness review, and actions arising from that review without the presence of the Executive.

## **9. AOB**

- 9.1 There was no other business.

