

Minutes of a meeting of the Actuarial Council held on Tuesday, 2 May 2017 at the FRC Office, 8th Floor, 125 London Wall, London E2Y 5AS

Present:

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

Observer:

Des Hudson	IFoA Observer
Fiona Burrough	IFoA Observer (Via teleconference for Minute 5)

In attendance:

Siân Barr	Project Director, Actuarial Oversight
Hazel Beveridge	Project Director, Actuarial Policy Team
Anu Bhartiya	Secretary
Dawn Dickson	Director of Professional Oversight (From Minute 5)
David Johnson	Lawyer (For Minute 5)
Melanie McLaren	Executive Director, Audit & Actuarial Regulation
Erica Nicholson	Project Director, Actuarial Policy Team
David Rawlings	Lawyer (For Minute 5)

1. Welcome and apologies for absence

The Chair welcomed everyone to the meeting. Apologies were noted from the Observer Umair Choudhry (HM Treasury) and Ann Muldoon, Director of Actuarial Policy Team.

2. Declaration of conflicts of interests

There were none to be reported.

3. Executive Director, Audit and Actuarial Regulation

3.1 Melanie McLaren (MM) informed the Council that the Conduct Committee had accepted the advice of the Actuarial Council on 'Actuarial Monitoring' without any amendment. The Conduct Committee had found the advice very helpful to assess forthcoming proposals from the IFoA. The Chair thanked the Members of Council and the FRC Team for their contribution in developing the advice. Through discussion, comments and observations were made including:

- The advice could potentially be used in the public and professional domains and might strengthen FRC's relationship with members of the actuarial profession.
- Some hallmarks as set out in the advice could form part of a consultation by the IFoA.
- IFoA felt that the advice was clear, balanced and persuasive with focus on real issues.

- After the General Election, the FRC will be writing to the incoming Chancellor highlighting the importance of the regulatory regime that the FRC is responsible for, including actuarial regulation and drawing attention to what actuaries do and how their work serves the public interest including potential risks and mitigants in place. In considering the matters that could be included in the letter to the Chancellor, the Members discussed the effectiveness of the work conducted by the JFAR and the liaison with the PRA and the FCA in respect of the FRC's responsibilities on actuarial matters. It was noted that the letter to the Chancellor would be circulated to the Council for comment in due course.

4. Report of the Director of Actuarial Policy and the Director of Professional Oversight

4.1 Erica Nicholson (EN) provided a brief update on actuarial policy matters including:

- FRC's response to the DWP Green paper on DB pensions, which was being drafted. If DWP decides to promote scheme consolidation, FRC may need to consider if TAS 300 remains appropriate.
- The article in Professional Pensions magazine on pensions illustrations and ASTM1 which raised issues relating to the FRC's role. Through discussion, it was acknowledged that there was a need for better pension's communication and this issue should be included within the letter to be sent to the Pensions Minister, again after the election. The ABI's initiative to introduce a pensions dashboard appears to have support of HM Treasury and the DWP. The dashboard would be a single platform where individuals would be able to view their pension benefits and will cover defined contribution and defined benefit schemes with values converted into annuities. It is believed that this initiative would require a legislative framework due to multiple inherent issues including governance and data privacy.

4.2 Siân Barr (SB) provided a brief update on matters relating to Professional Oversight. She outlined that the FRC would be sending the IFoA a private report on the FRC's actuarial oversight activities including the findings from its monitoring visit. The findings would be shared with the Council after having finalised in discussions with the IFoA. The key points from this private report to the IFoA will form the basis of the FRC's public annual reporting which would be appended to the FRC's Annual Report.

5. Update on Enforcement

FRC Enforcement

5.1 The Chair welcomed David Johnson, David Rawlings and Fiona Burrough to the meeting. David Rawlings (DR) provided a presentation on disciplinary investigations in public interest cases highlighting the key features of the Actuarial Scheme. The presentation covered the following points:

- The Actuarial Scheme applied to all members of the IFoA, including those who were members at the time of relevant conduct but had since left.
- The purpose of the scheme is to safeguard the public interest, maintain public confidence in the actuarial profession and uphold proper standards of conduct.
- FRC investigates matters that raise or appear to raise important issues affecting the public interest in the United Kingdom.
- Cases investigated could be referred by the IFoA or arise directly from complainants or be initiated by the FRC.
- Cases are investigated by the FRC Enforcement Division which comprises lawyers, forensic accountants, in-house and external experts.
- Members are required to cooperate and evidence could also be obtained from other regulators.
- Hearings take place before an independent tribunal with a majority of lay members.
- Sanctions include expulsions, restrictions on practice, fines.

- 5.2 The Chair enquired if any members had conflict of interest with the recently settled case relating to RSA Insurance Ireland Limited; none was reported. David Johnson (DJ) gave a brief update on the Company. It was noted that the RSA case was the first sanction imposed on actuaries under the FRC Actuarial Scheme. The details of the case were available on the FRC website. The Members discussed the cultural environment in which some actuaries work and whether the sanctions imposed in the case were sufficient.
- 5.3 Des Hudson (DH) reported that the IFoA focuses on the obligation for professional members to 'speak up' to their employers under the whistle blowing policy requiring escalation of breaches. A helpline, funded by the IFoA, was available for its members and employers to consult on matters of concern on any potentially unlawful, unethical or improper course of action. IFoA also helps the members of the profession by promoting their obligations through the Actuaries Code.
- 5.4 DR concluded his presentation by highlighting the themes emerging from enforcement's consideration of actuarial cases: the diverging interests of clients, employers, 'users', consumers and the public. It was noted that there are risks associated with principles based approach to standards for actuarial work involving professional judgement.
- 5.5 DH outlined the IFoA's disciplinary scheme and the process of handling complaints and investigations as set out in the papers. The Members discussed the 'Allegations by Practice Area' and noted that the IFoA would be taking measures to improve awareness of standards and providing guidance and support where required. The Council noted that whilst it was pertinent to have due process in place to expedite the disciplinary process to defend the profession, it was important to recognise the difference in the roles of a professional body and an independent regulating body.
- 5.6 The Chair suggested that the FRC Enforcement Team present to the Council when future cases are settled and publicised, in order to understand the implications and issues that relate to the Actuarial Standards. This was agreed.
- 6. IFoA Observer's Report**
The update on the IFoA matters was included in the discussion relating to Minute 5, 8 and 9.
- 7. HM Treasury Observer's Oral Report**
Umair Choudhry had informed by email that there was no specific update to provide from the HM Treasury perspective during the Purdah period.
- 8. Ogden update**
- 8.1 EN introduced the paper on the Lord Chancellor's announcement relating to the Ogden discount rate in 2017. Council Members had enquired as to why (motor) liability insurers and reinsurers were surprised by the amount of the change in the Ogden discount rate and whether the risk should have been on the radar of the IFoA, FRC or JFAR. The following points were noted:
- Insurers impacted by the change in the Ogden discount rate did expect the rate to fall, however, there was a perception in the market that the level of the change would be smaller. In particular, the industry did not seem to expect the discount rate to be negative.
 - It was noted that the JFAR risk perspective had identified low interest rates as a risk but the focus has been on pensions and long term life insurance where the impact

of low interest rates is expected to be much more significant than has been observed by the change in the Ogden discount rate.

- 8.2 The Chair reported on the comments received from Umair Choudhry in respect of this item and noted that he had found the report to be well written with good background and analysis of the issue but expressed surprise regarding the market rumour described in paragraph 2.14 of the paper and confirmed that HMT did not recognise the number or the suggestion that HMT provided an indication on the rate.
- 8.3 Members discussed the impact of the change in the Ogden discount rate and made the following observations:
- There was an assumption by the industry that the status quo would be maintained; however, there were wider legal and policy matters in play. PPOs had been focussed on but the plaintiff viewpoint had not been sufficiently taken into account.
 - Markets are using long term discount rates of 2-3%.
 - The Wells v Wells case, which was the basis for the Lord Chancellor choosing to base the discount rate on index linked gilts, was unremarkable except for the decision that now index linked gilts are available and they are the most appropriate form of investment.
- 8.4 The Council concluded that actuaries and JFAR needed to be more cognisant of political / legislative risk and that JFAR might consider this theme when it refreshes its risk perspective.

9. Risk matters including the IFoA Risk Outlook

- 9.1 Hazel Beveridge (HB) provided a brief update on the matters the paper addresses including the Actuarial Policy Team's approach to risk activities in 2017 including the update to the JFAR Risk Perspective and supporting the FRC's Risk Management framework. It was reported that an initial proposal of the Risk Perspective would be presented to JFAR in June for feedback on the risks identified by its working group and to identify and agree projects for thematic reviews in 2017/18. Actuarial Council's input on FRC's Risk Register and Risk Management Policy and Procedures document would also be sought at the next meeting when the FRC Risk Management Team and the Actuarial Policy Team will provide their update and present their initial findings. Council agreed that the process diagram was helpful and asked that it draw out explicitly the assessment of risks underpinning the scope of the specific TASs.
- 9.2 DH outlined the IFoA's Risk Outlook process and the identification of Risk Alert subjects. The following were noted and discussed:
- As part of the IFoA's support for the work of FRC and JFAR in the identification and communication of public interest risks arising from actuarial work, the Regulation Board had adopted for its own regulatory activities on behalf of IFoA the production, maintenance and publication of a Risk Outlook. The Regulation Board had consulted with all of the IFoA's specialist Practice Boards.
 - The first Risk Outlook was published in December 2016. It set out eight high level risk categories driving risks to actuarial quality; described by the Council as being appropriately actuary-centric.
 - The Regulation Board's approach is also to produce, from time to time, Risk Alerts. These alerts identify perceived and actual issues or risks that by their nature demand more immediate comment and awareness across the profession. The Risk Alerts are issued with an intention to refine and improve awareness of concerns.
 - The Regulation Board maintains a current schedule of Risk Alert subjects and work in coordination with the IFoA Executive together with the relevant specialist IFoA

Practice Board(s) or Committees or if necessary specialist working parties are created for the particular topic.

- The Regulation Board shares the issues or subjects it has identified as 'requiring' a Risk Alert, and shares with JFAR published Risk Alerts as well as the annual Risk Outlook and subsequent iterations.
- Council suggested that certain Risk Alerts may not be of immediate relevance or useful for certain actuaries, for example, the Risk Alert on climate change may not serve any immediately obvious purpose in assessing pensions scheme mortality. It would be helpful if each Risk Alert was supported with a statement as to its objective and supported with a contextual debate and education.

9.3 The Members were generally supportive of the Risk Alerts and agreed that the alerts on 'Climate Change' and 'Model Manipulation' would be further discussed at the next meeting. DH reminded the Council that these alerts were not final and should not be circulated.

10 Minutes and rolling actions

10.1 The minutes of the meeting held on 22 March 2017 were approved for publication.

10.2 The rolling action log was noted.

11. Forward agenda

The Chair informed that construction of the document was still in progress and the agenda for the meeting had been restructured to include matters under the five focus areas of the Council.

12. Any other business

Council meetings in 2018

12.1 The Council noted the meeting dates in 2018.

Council recruitment

12.2 The Chair informed the Council that a recruitment exercise will take place soon to replace Martin Miles and Howard Jacobs who will be standing down at the end of August 2017 after serving five years. The Members were invited to suggest names of users of pensions actuarial work, who may or may not be actuaries, when the advertisement is released. The Secretary agreed to share the link with the Council when the advertisement is published.

13. Date of next meeting

13 June 2017