

## Alternative Models for the structure of the UK Actuarial Profession

### Introduction

1. This paper has been prepared in response to members' requests for more information about why the two Councils recommend a merger and what alternatives there could be. It builds on the work of the Faculty Task Force. You will have seen the evaluation matrix as Appendix 2 of their report.
2. This paper outlines various **models** and uses the Faculty Task Force's design principles to evaluate them. Faculty and Institute Council will debate the viability or otherwise of each model at their joint meeting on 19 May 2008. They will also consider the implications of the three resolutions passed at the Faculty SGM on 16 April and decide whether an in-principle vote will be held, if it is held when it will be held, and whether there are any viable alternatives to put to the membership alongside "merge" / "don't merge" options on a Single Transferrable Vote basis.
3. In addition to the models outlined in this paper the Councils will assess the various models put forward by individual members.

### What does "viable" mean?

4. The word viable was used in the resolution agreed by the majority<sup>1</sup> of those attending and voting at the Faculty SGM.

"Resolution 4: This meeting directs Council to cancel the proposed in-principle vote and if, and only if, the above detailed consultation leads Faculty Council to wish to introduce changes that materially alter the current joint arrangements with the Institute, this meeting directs Council to put to members such proposed changes, together with any **viable** alternative options that have arisen during the consultation process, for voting on a single transferable vote system to select the preferred option for taking forward."
5. We think a viable option is one that the Councils, with the benefit of their knowledge of the current working arrangements and, after careful analysis, believe is a workable way of running the Profession in the UK. It would have to be something we could move to from where we are today. Councils would have to be comfortable that if the membership expressed a preference for such an option in an in-principle vote that it would be possible, at reasonable cost, to put it into effect.

### Why did the Councils not provide a range of alternatives initially?

6. Most people expect their Councils to demonstrate leadership and spend the time the members themselves do not have to weigh up options. From that work Councils were in a position to make clear, straightforward recommendations.
7. Councils felt that the two clear alternatives were:
  - Continue to progress down the path of closer and closer integration (the "not merge" option) or
  - Take the positive step to merge at a very appropriate point in time
8. The in-principle vote was designed to capture the members' view of that choice. No detailed work would be undertaken or major costs incurred unless there was a substantial majority in support of a merger.

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<sup>1</sup> 137 voted, 53% in favour

## **What did Councils think they would do if the planned in-principle vote showed the members were not in favour of merger?**

9. In the published Q&As we said the following:

*If that were to happen the Councils would try to understand why and address those issues before making a further proposal to the membership. If the membership of one body votes in favour but the other membership votes against then Councils would not be able to implement a merger within the proposed timescale. Issues such as the proportion of the votes against and the objections articulated during the consultation process would have to be considered before the Councils could decide next steps.*

*Both Councils believe that the status quo is not an option long-term. Running a joint profession through two separate Councils with the resource and inherent instability that this entails is not really acceptable or appropriate for the 21st century. While most decisions are currently taken by Joint Councils, the composition of this body does not reflect the relative sizes of the Faculty and the Institute.*

*Both Councils believe a planned merger along the lines of this proposal offers the optimum structure to develop and maintain a stable, consensual and successful profession. The Faculty Council recognises that it would not be viable for the Faculty to exist as a completely independent body long-term, as it would lack the resources to run its own education and disciplinary systems.*

### **Range of Models**

10. We present a range of models from “Merge – with no special terms” to “Cease joint working”. We recognise that there are other variations but believe that the alternatives suggested by members to date broadly fit into these categories.

### **Means of analysis**

11. Under the description of each model we have tried to list the advantages and disadvantages of each. In addition we carried out the assessment as recommended by the Faculty Task Force. Individual members will have their own views on these.

12. The Faculty Task Force developed a set of design principles or criteria by which to assess options. These were agreed by Faculty Council on 1 October 2007. A rating chart was included in the Task Force report but not expressly used by Faculty Council members in the meeting: they did not, collectively, find the other options ones they wanted to pursue.

13. It is important to recognise that in proposing the design principles the starting point for the Faculty Task Force was the reality of the situation at the time they were working

- Most activities of the profession already operate on a joint basis (this has been done for operational efficiency, to reduce duplication of effort and provide value for money to members)
- all UK actuaries, their employers and clients are subject to the same regulatory environment and we have oversight and standards set by FRC bodies
- The majority of 496 Faculty members responding to the question in a survey initiated by the Faculty President in 2006 said they were in favour of merger

- Concerns which were expressed in the commentary to the survey were addressed by including them in the list of principles to be satisfied
14. These evaluation criteria were designed from a Faculty perspective and there may be other issues that Institute Council would use as a means of evaluating the options. Individual members (and individual members of Council) may also value different things so may assess the models differently.
  15. On the summary matrix at the end of the paper a numerical scoring has not been used as this risks giving an illusion of precision: they are subjective judgments. Also totalling a score would be meaningless because each of the criteria might have a different weighting.
  16. Members may wish to form their own assessments and design their own scoring methods.

Ronnie Bowie and Caroline Instance  
2 May 2008

### **Merge - with no special terms**

- Merger would be on the basis of a coming together of the two bodies with no special protections for any group
- Election to Council would be open to all Members (not students) – no constituencies
- No protections for activities in Scotland
- Appointment to Boards and Committees based solely on merit

### **Advantages**

Streamlined (and more democratic) governance

Stable structure (Joint Councils currently works through co-operation only)

Maximises administrative efficiency

It would formalise the present portrayal of the Professional body as a single entity and there would be one body, one voice, one President.

It is what would be designed if starting today, as all UK actuaries, their employers and clients are subject to the same regulatory environment and we have oversight and standards set by FRC bodies

Provides opportunity to re-launch profession with focus on risk management and financial modelling capabilities

More volunteer time can be spent on activities that support members rather than internal administrative matters

Back office already integrated so it would not impact on the staff

### **Disadvantages**

Losing the two historical bodies with their unique identities

Majority would rule, so there may be no Scottish based Fellows elected to Council

No protections for Faculty members

No special arrangements put in place for Scottish activities (but the Professional body if it retains the same strategy as now would serve all its members in the UK so would still have activity in Scotland)

Some implementation costs

Potentially upset a proportion of membership

Will surface logically unimportant, but emotionally important, issues like name, designatory letters

Need two-thirds' and three-quarters' majority of votes from each existing body to proceed

Will be seen by some as a take-over by Institute

Removal of a check-and-balance that two bodies provides

## **Merge - on negotiated terms (as already presented to the membership)**

- One professional body for all members of the profession
- Governed by up to 30 people on the Council ( "Senate")
- Geographic constituencies – first one set up would be for Scotland with 10 seats on the Senate
- Scottish Council formed from those 10 to oversee activities in Scotland
- Representation for Scottish constituency starts to reduce after 5 years to become proportionate to constituency numbers, but guaranteed as at least 6 for 15 years
- Leader of Scottish Council has seat on Management Board
- Scottish Council has £500k endowment
- First President of merged body will be a Faculty Fellow, Ronnie Bowie
- Commitment to having an increased proportion of the joint body's staff working in Scotland.

## **Advantages**

Streamlined governance

NewProf Council is more democratic than Joint Council as more in proportion to the membership size

Stable structure (Joint Councils currently works through co-operation only and each body has effectively the right of veto)

Increases administrative efficiency of the main professional activities

It would formalise the present portrayal of the Professional body as a single entity and there would be one body, one voice, one President.

Embraces the "one body" model that would be designed if starting today, but recognises the community aspects enjoyed by those in Scotland currently.

Better defined public image (one body, one voice, one President)

Provides opportunity to re-launch profession with focus on risk management and financial modelling capabilities.

A clear brand would improve the impact of any marketing by the professional body to business of the actuarial skill set and the value actuaries add

More volunteer time can be spent on activities that support members rather than internal administrative matters

Back office is already integrated so there would be no impact on staff

Other geographic constituencies can be set up

## **Disadvantages**

Losing the two historical bodies with their unique identities

Concern about the name of the new body

Structure may require some modification in the event of an independent Scotland (although the Scottish Council allows for Scottish issues to be addressed separately)

Halving UK representation in IAA and Groupe Consultatif committees (although a more effective International Committee should result in better and more co-ordinated representation and always someone on key project groups)

Concern over effectiveness of protections for members of the profession in Scotland (key provisions would be built in the charter)

Some implementation costs (but need to identify separately true implementation costs and other costs such as marketing the Profession which is optional and could still be undertaken even if not merged)

Need two-thirds' and three-quarters' majority of votes from each existing body to proceed

Removal of check-and-balance that two bodies provide

Have to resource Scottish Council activities

Upset some members

### **Formal agreement between the two Councils (*Default option if the two bodies do not merge*)**

- Two separate Councils as now. Document the joint working arrangements in a formal Memorandum of Understanding between the two bodies
- Individual Councils deal with ceremonial functions and ensure that the joint activities deliver sufficient activity and services for their individual Members
- Joint Council would have only 30 members attending from the two individual Councils. This would be in proportion to their relative membership sizes but Faculty would have at least 5 seats, representing the Faculty Council quorum. (Attendance could be rotated or fixed as each Council wanted)
- Joint Council operates as though it were the individual Councils meeting simultaneously. The decisions of Joint Council are the decisions of each Council
- Each Council annually delegates the powers it has under its Charter to Joint Council but (as now) at any time the Council could withdraw that delegation and effectively veto the decision of Joint Council
- A Management Board will be appointed by Joint Council; its Chairman will be the main spokesperson for the Profession, individual body Presidents will not do so.
- There is no guaranteed level of membership of Faculty or Institute Fellows on any joint committee; the best people for the jobs are chosen
- External communication will minimise reference to either Faculty or Institute, with “The Actuarial Profession” continuing to be used as the marketing brand
- Use mutual recognition provisions in rules to allow members to opt for either Faculty or Institute membership without requiring a ballot for admission to be held
- Active encouragement of members to move to the body of their choosing
- Any member wanting to be a Fellow or Associate of both bodies would pay one full subscription and one partial-regulated reduced subscription

### **Advantages**

Some efficiencies achieved without the need for two-thirds and three-quarters votes

Simpler, more representative governance than now

Retains historic bodies and two charters

Avoids issues over name, designatory letters etc.

Leaves flexibility to separate (say to accommodate independent Scotland) or merge in future

External face will only relate to The Actuarial Profession

No disruption to joint pool financial arrangements or to the staff who now all work on joint activities

Retain two UK representatives on IAA and Groupe Consultatif committees

No cost to implement

Only requires Council involvement, no further vote of the Members

### **Disadvantages**

Still not inherently stable, though each Council would have to understand that if they reversed decision of Joint Council it would be seen as the “nuclear option” which might lead to a split

Still potentially confusing to outside world

Puts individual Council members not serving on Joint Council in a position where they have responsibility without necessarily having influence. Individual Councils have a limited role of ceremonial activities and oversight

Loss of identity of Faculty and Institute by stealth as no longer referred to publicly.

The Actuarial Profession has no legal status – it exists through co-operation (it is the lack of legal status which introduces risk to the enforcement of its activities)

Lost opportunity to re-launch and reposition profession on the back of news about merger. May still have to re-think the brand of The Actuarial Profession

### **Creation of new third body**

- A new body (say the Society of Actuaries of Great Britain) would be created to act as the regulatory professional body for all actuaries in the UK
- Faculty and Institute Councils would act as electoral colleges for new third body (this would be built into charter for new body)
- Faculty and Institute Councils would continue to be responsible for any non-professional regulatory activity such as ceremonial and learned society activity
- Faculty and Institute members wishing to practise in the UK would also have to join the Society
- The President of the Society could be the Profession's spokesperson
- The Presidents of the Institute & Faculty might be Vice Presidents of the Society
- Designation FFA and FIA would be at choice of member by membership of the second body

### **Advantages**

Retains historical bodies

Potentially create a third UK representative on IAA and Groupe Consultatif committees but might be debateable whether Institute and Faculty in new form meet criteria for IAA/Groupe membership.

More democratic governance

### **Disadvantages**

More complex than current arrangements: may add to rather than reduce confusion in the outside world

Members need to join two bodies

A third charter would have to be created and existing charters would have to be changed to reflect the functions of the individual Faculty and Institute responsibilities. [If the USA Academy model is followed each body would be responsible for own education system; however in the UK, with POB oversight, it would probably be logical to give education to the Society as POB consider it to be a regulatory function]

The need for a third charter body would make it time consuming, resource intensive and costly to implement without the distinct advantages of merger

There may need to be a splitting of current staff between the three bodies with Transfer of Undertakings (Protection of Employment) (TUPE) implications, and inter-organisation service agreements etc

It would need a full vote of the membership (Faculty and Institute)

Once in existence the members of the new third body could change their charter to discontinue the electoral college arrangements as initially envisage by Faculty and Institute

Upset some members

## **Faculty and Institute have different and not overlapping functions**

- Institute would continue to provide a full regulatory professional body service to its members
- Faculty would restrict its activities to that of a learned society [It would need to decide if was doing this just for Scotland or whole of UK]

## **Advantages**

Retains historic bodies (albeit the Faculty having a different function) which some members value

UK representation in IAA and Groupe Consultatif committees remains as now (but no means of co-ordination of co-operation between them)

## **Disadvantages**

Faculty would not be following the strategy that Faculty Council has agreed jointly with the Institute

Faculty charter would need to change to remove regulatory responsibilities and be agreed by members and Privy Council

Education system is considered by POB to be a regulatory function so would remain with Institute

All students would be Institute members only

Have to disentangle all joint working and financial arrangements, which would be a lot of work (to what benefit for members?)

Replaces one source of inefficiency by another

Staff would have to be split between the two bodies with TUPE implications

Working Faculty members would have to join the Institute too

While working Institute members of Institute might be encouraged to join Faculty (if it provided services throughout UK) they would not have to.

Boundary issues on things like CPD- Institute as a professional regulatory body would still have to provide these services to its membership

POB may have public interest concerns about what FFA designation now signifies

If Faculty, as learned society, opens up its membership to all the UK might it become London centric over time?

Upset some members

## **Cease joint working and the Faculty and the Institute each provides full regulatory professional body functions as completely separate entities**

- Faculty and Institute would provide independent professional services to their members, there would be no joint working
- Members could move between bodies through mutual recognition agreement

### **Advantages**

Retains historic bodies

Clarity of roles

Creates choice and competition

### **Disadvantages**

Outside world may wonder why there are two bodies, but it will be more analogous to ICAEW and ICAS

No longer a single voice on UK actuarial matters

Have to disentangle all joint working and financial arrangements, which would be a lot of work (to what benefit for members?)

Overall actuaries (and their employers) will have to pay more for equivalent services than today as not able to utilise any economies of scale

Does not present a good image of actuaries in general to the media – as would signal breakdown and disagreement between the actuarial professional bodies

Staff (and premises) would have to be split between the two bodies. There would be lots of legal implications and tax consequences to work through.

Faculty would have to set up own infrastructure: membership database, website, finance function etc. Would this be financially viable?

Risk of some Faculty members moving to join Institute resulting to loss of subscription income

Faculty could not provide education service so, like the Society of Actuaries in Ireland, all students would have to take Institute examinations. (Would they then go on to join Faculty if working in Scotland?)

POB would take a close interest in whether the Faculty could adequately deliver regulatory functions.

The Faculty Charter may need to change to reflect the reality of what can be delivered and require a two thirds' majority approval

Upset a large part of the membership

Possible Models						
Design Principles in Faculty Task Force Report	Merge - with no special terms	Merge – on negotiated terms	Don't merge – have formal agreement	Create a third body	Faculty and Institute provide different functions	Cease joint working and each body provides full regulatory professional body functions
Support united operation of UK Actuarial Profession	√	√	√	√	√ ( but this would be the Institute)	X
Single governing body	√	√	Partial	X	X	X
Guaranteed Scottish representation on governing body	X	√	√	√	Only on Faculty body	Only on Faculty body
Improved image with opinion formers	√	√	Partial improvement	Not clear, depends how portrayed	Partial as have clear roles	May not, why two bodies for small profession
Strong support for actuaries in Scotland	Partial (not protected)	√	√	√	Not clear, depends on line of work	Will depend on Faculty's ability to deliver a full regulatory service
Successful relationships with Scottish based employers and academics	Partial (not protected)	√	√	Not clear if new body is not based in Scotland	Unclear as employers may want relationship with Institute	Will depend on Faculty's ability to deliver a full regulatory service
Ease of communication to members	√	√	As now	X	X	√
Benefit greater than implementation cost	Alienate Faculty members	√	√	X	X	X