The Actuarial Profession
making financial sense of the future

Regulatory strategy

Professional Regulation Executive Committee

September 2012

1. Introduction

1.1. The Institute and Faculty of Actuaries ("the Profession") has, in accordance with its Royal Charter, primary responsibility for the regulation of its members, as actuaries, in the public interest. Following its merger in 2010, the Profession undertook a strategic review, in terms of which its overarching regulatory strategy is defined[1] as being, *"to license and regulate the members of the Institute and Faculty in such a way as to assure public confidence"*.

1.2. The Profession has recently published a substantial position paper, setting out its thinking and objectives with a view to the implementation of its regulatory strategy over the next two-five years. The paper may be found at www.actuaries.org.uk/research-and-resources/documents/regulatory-strategy. What follows is a summary of the policy direction and objectives set out in that paper.

1 The Institute and Faculty of Actuaries, Strategy, June 2011, p1.

2. Regulatory rationale

2.1. The Profession undertakes its regulatory role, first and foremost, in the public interest. Fundamentally, this is about the protection of the public, but it extends also to assuring public confidence in the Profession, by maintaining its good standing in the public eye. Ultimately, the public interest is served by assuring the quality of actuarial work. The Profession's oversight body, the Financial Reporting Council (FRC), has articulated – through its Actuarial Quality Framework – 'drivers' for actuarial quality, in relation respectively to actuarial methods, communication, technical skills and professionalism, as well as the environment in which actuaries work[2]. The Framework serves in effect as a yardstick by which to measure the achievement of the Profession's public interest objectives.

2.2. The Profession seeks to undertake its regulatory role according to the Principles of Good Regulation. These should be considered and reflected across its regulatory strategy, as well as at an operational level, in relation for example to standard setting and enforcement. These principles[3] require that regulation is;-

2.2.1. **Proportionate** – such that regulatory intervention is undertaken only to the extent necessary and appropriate to the risk;

2.2.2. **Accountable** – the Profession should be ready to justify regulatory action (and inaction) and should be, and be seen to be, open to scrutiny by the public as well as its members;

2.2.3. Consistent – regulatory action (and inaction) should be coherent, according to a clearly defined and comprehensible policy;

2.2.4. Transparent – regulation should be clearly articulated and readily comprehensible to non-actuaries; and

2.2.5. Targeted – regulatory action should be focused on identified problem(s), such as to minimise side effects.

2.3. Consistent with these principles, the Profession aims to undertake its regulatory role in a way which is outcomes-focused: regulatory action should focus on solving a specific problem, but permit reasonable flexibility as to how this is achieved. The emphasis is on resolving the actual cause of public interest concern, and steers away from process-focused and 'tick-box' models.

2 See the FRC's "Actuarial Quality Framework", June 2010 – See: www.frc.org.uk/pob/actuaries/drivers.cfm.

3 'Principles of Good Regulation', published by the Government's Better Regulation Task Force in 2003 and accorded statutory recognition by s21 of the Legislative and Regulatory Reform Act 2006.

3. Implementation

3.1. The Profession has identified five core, inter-dependent strands of regulatory work, as follows:-

3.1.1. Standards and guidance – the Profession will aim to ensure that its ethical[4] standard-setting activity is consistent and, so far as possible, principles-based, outcomes-focused and clear, such as to be capable of comprehension by the non-actuary. In particular, ethical standards will be introduced and maintained according to the following principles:-

3.1.1.1. Standards and guidance are not introduced unless there is a demonstrable need, in the public interest, for more specific provision than is currently provided by the Actuaries' Code. It is implicit in this principle that the Profession is in a position to make this assessment from a position of informed awareness in respect of need and risk. It follows that the Profession commits to keeping itself generally informed about actuarial practice and the way it is undertaken by its members.

3.1.1.2. In general, preference is to be given to principles over detailed rules, provided that sufficient detail is prescribed in order to make clear the behaviours and other outcomes expected.

3.1.1.3. Standards are drafted in plain English, with a view to comprehensibility by the non-actuary.

3.1.1.4. The status, application and inter-relationship of the Code, standards and guidance are clear.

3.1.2. **Qualification** – the Profession will aim to ensure that there is proper integration of the Profession's regulatory framework with the new membership and qualification structure.

3.1.3. **Continuous Professional Development (CPD)** – the Profession will aim to ensure that its CPD regime has a focus on outcomes and is integrated with relevant training and support, including in relation to professionalism.

3.1.4. **Compliance monitoring** – the Profession will act proportionately in this area, emphasising individual self-responsibility over regulatory policing. At the same time, the Profession will stand ready proactively to undertake specific and targeted compliance activity, to the extent that this is appropriate, proportionate and consistent in relation to a specific area of risk.

3.1.5. **Enforcement and discipline** – the Profession is committed to ensuring that it maintains appropriately robust but fair enforcement mechanisms. We will aim to enhance the transparency, flexibility and effectiveness of our approach in this area.

4. International

4.1. The Profession has regulatory responsibility not just for those of its members working in the UK, but also for the significant proportion of its membership based overseas. We have proposed a regulatory principle – the 'Equivalence principle' – in terms of which the Profession will aim to achieve equivalence of regulatory outcome in relation to all of its members, whether working in the UK or overseas. The emphasis is on equivalence of outcome, recognising that this may require some variation in approach (in order to achieve the same regulatory effect).

5. Summary of objectives

5.1. The Profession has identified 17 specific policy objectives arising from its regulatory strategy. Below are the objectives:

5.1.1. To define and map a framework of outcomes-focused ethical standards, according to the principles set out at 3.1.1 above.

5.1.2. To ensure an integrated and cohesive approach between the development of the new qualifications structure for the Profession and the development of standards and regulatory policy and enforcement.

5.1.3. To integrate the current regulation of reserved roles with the new qualifications model.

5.1.4. To develop a Continuing Professional Development (CPD) regime, including requirements in relation to professionalism, which is simple, comprehensible and, to the extent possible, outcomes-focused.

5.1.5. To integrate the new training, including professionalism regime, with the outcomes specified in the new CPD regime and the FRC's Actuarial Quality Framework.

5.1.6. To support, encourage and equip members to take responsibility for regulatory compliance, and to report incidents of non-compliance.

5.1.7. To assess, from a position of informed awareness, any requirement for more interventionist compliance monitoring, targeting any identified specific area of risk, in accordance with the principles of proportionality and consistency.

5.1. 8. To ensure the effectiveness of communication and engagement with those referring complaints under the Disciplinary Scheme.

5.1.9. To ensure so far as possible the consistency of decision-making under the Disciplinary Scheme, having regard in particular to the adequacy of Disciplinary panels' reasoning and the comprehensibility and perceived fairness of decision-making, from the public perspective.

5.1.10. To consider what alternative arrangements should be put in place, or guidance offered, where a matter has been brought to the attention of the Profession, but there is no desire on the part of the complainant, or public interest, in making a formal complaint under the Disciplinary Scheme.

5.1.11. To put in place a more clear policy and process in relation to the assimilation, consideration and, if appropriate, investigation of information which has come to the Profession other than by means of a complaint and which may be grounds for disciplinary action(s) in relation to a member(s).

5.1.12. To put in place an appropriate process by which issues of wider relevance arising from disciplinary complaints may be identified and considered and appropriate action taken.

5.1.13. To adopt and implement a coherent policy for the regulation of overseas members upon the basis of the Equivalence principle (as set out at paragraph 4.1), building on work recently done in relation to the 'Standards Decision Tree'.

5.1.14. To work actively to encourage the promotion of consistent standards, including appropriate CPD and enforcement procedures, internationally.

5.1.15. To ensure that members are appropriately supported in relation to the implementation of the Profession's international regulatory strategy.

5.1.16. To define, in conjunction with the FRC so far as possible, the appropriate scope, or perimeter, of actuarial regulation.

5.1.17. To design and implement a communications plan for the purposes of promoting awareness of and engagement in the Profession's regulatory role and approach, including publishing its regulatory strategy.

6. Further information

6.1. For further information about the Profession's regulatory strategy, and its implementation, please visit www.actuaries.org.uk/research-and-resources/documents/regulatory-strategy or contact fiona.goddard@actuaries.org.uk



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