



Institute
and Faculty
of Actuaries

Professionalism Resource Material

Archie the Actuary : Compliance

by the Professionalism Awareness Committee

Archie the Actuary

Part Five – Compliance by Andrew Newman

This is the fifth of a series of articles where Archie the Actuary acts as our guide through the elements of the Actuaries' Code. In this article, Archie discusses compliance and what to do when actuaries or others appear to be not following the rules.

Vanessa started as a student at ABC Life a year after Archie and transferred to the non-life division before qualifying. She is currently Head of Non-Life Reserving, directing the estimation and reporting of non-life reserves from around the group. Fred, whom Vanessa and Archie first met when he worked for their auditors, was appointed as Finance Director a year ago.

Normally, Vanessa's team's numbers form the basis of the numbers carried in the published accounts. Fred is now proposing a different approach for the mid-year accounts. He has engaged an external actuarial consultancy to assess the reserves and their report recommends a lower reserve. Vanessa has reservations about the external actuaries' work and is uncomfortable with the direction the mid-year process is taking. She meets Archie for a coffee to discuss her concerns about:

- The quality of the actuarial work
- The propriety of Fred's behaviour
- The impact on the financial statements
- If Vanessa can, or must, speak up; and to whom

Vanessa tells Archie that the actuarial report was sketchy and that the few assumptions documented in the report a number were, in her view, unreasonably optimistic. She fears that Fred is deliberately looking to flatter the non-life balance sheet with an eye to divesting the non-life business, or more generally to boost the company's share price.

Archie notes that section 4 of the Actuaries' Code, Compliance, comes into play here.

As Vanessa feels that Fred's behaviour is improper, she needs to challenge him (4.) and if she gets nowhere with Fred then she needs to speak up and take the matter further up her employer's hierarchy (4.1).

If Vanessa gets no satisfaction from this then she may have to go outside the company to the regulators (4.3) if legal protection is available. Archie suspects that this would be the case if the financial statements are affected, but recommends that Vanessa contact his barrister friend, Ben Blessington, whom he has consulted on the Actuaries Code previously.

The consulting actuary who signed off the work is a member of the UK actuarial profession. Archie thinks Vanessa should challenge the actuary about the work (4.) and, if she does not receive a satisfactory reply, must report the consulting actuary's work to the profession (4.4). Vanessa is uncomfortable with the idea of actuaries sneaking on each other. Archie replies that would not be in the public interest for us to close ranks to protect other actuaries and that our clients, and the general public, expect and deserve better than that.

SECTION 4 OF THE ACTUARIES' CODE

- 4. **Compliance:** Members will comply with all relevant legal, regulatory and professional requirements, take reasonable steps to ensure they are not placed in a position where they are unable to comply, and will challenge non-compliance by others.
- 4.1 Members will speak up to their clients or to their employers, or both, if they believe, or reasonably ought to believe, that a course of action is unlawful, unethical or improper.
- 4.2 Members will fulfil any obligations to report information to relevant regulatory authorities.
- 4.3 Where there is legal protection available, members will report behaviour that they have reasonable cause to believe is unlawful, unethical or improper, to regulators or other relevant authorities. In the UK these protections include: the Public Interest Disclosure Act 1998, sections 342 and 343 of the Financial Services and Markets Act 2000 and section 70 of the Pensions Act 2004.
- 4.4 Members will promptly report any matter which appears to constitute misconduct or a material breach of any relevant legal, regulatory or professional requirements including Actuarial Profession Standards and Technical Actuarial Standards issued by the Board for Actuarial Standards, for consideration under the relevant disciplinary schemes. To the extent that the consent of a third party is required for this purpose in order to disclose information, members must take all reasonable steps to obtain such consent.