

Current Issues in General Insurance 2005

Introduction

David Hindley
Chairman, GI Board
17 May 2005

TOPICS

- Morris update
- FSA update
- Spitzer
- Pricing: Natural Cat's and extreme events
- GRIT
- Other current issues
- Four workshops
 - Lloyd's
 - Ireland
 - Courts Act
 - Industrial Diseases

FURTHER CURRENT ISSUES

- The Internet revolution: Will it happen?
- APH and more recent U.S Casualty issues – what next?
- Can “we” stop the cycle?
- Solvent Schemes: A fair way out?
- Do actuaries Treat Customers Fairly?

Current Issues in General Insurance 2005

Morris Review

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POTENTIAL MORRIS GI OUTCOMES

- Directors required to seek input on reserves
- Auditing of GI companies must involve actuaries
- Mandatory CPD
- More guidance on GI actuarial work (e.g. Reserving, ICAS, Pricing ?)
- External scrutiny of our advice

NB: These are all POTENTIAL outcomes only. They may not happen.

THE MORRIS REVIEW

- March 2004 – Review established
- Response to Penrose Inquiry into Equitable
- Interim Assessment – December 2004
- Final Report – March 2005

PENROSE COMMENTS

- Lack of comprehensive Actuarial Standards
- Over-reliance on the Appointed Actuary
- Lack of scrutiny and audit of actuarial calculations
- Reluctance to challenge fellow actuaries
- Reactive disciplinary procedure
- Concerns about GAD's role

FOCUS OF MORRIS REVIEW

- Competition and choice in the market for actuarial services
- Regulatory framework
- Future role of GAD

MORRIS REVIEW

Profession's Approach:

- Positive, open engagement
- Confident in our own reforms
- Willingness to embrace further change
- Regular dialogue and supplying information
- Recognise change happening to all professions (accountancy and law)
- Focus on future not argue about past

MORRIS REVIEW

Work was already in progress

- Plans to set up independent standard setting body
- Compliance monitoring / peer review
- Revalidation of competence (enhanced CPD requirements)
- New discipline procedure (completed)
- New education syllabus (completed)

MORRIS: FINAL RECOMMENDATIONS

- Market for actuarial services
- Regulating the Profession
- Education & CPD
- Actuarial roles
- Standard setting
- Public interest and accountability
- Scrutiny and discipline

REGULATING THE PROFESSION

- Self regulation alone x
- Statutory regulation x
- Independent oversight ✓

"The central recommendation of the review is that the actuarial profession should be subject to independent oversight by the FRC"

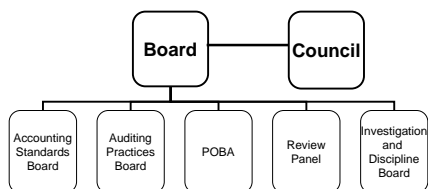
WHAT IS THE FRC?

- Not....
- But is... www.asb.org.uk or www.frc.org.uk
- UK's independent regulator for corporate reporting and governance
- Established 1990; role widened recently
- Five key roles: Auditing, Accountancy, Profession, Reporting, Discipline.
- E.g: Oversee regulatory activities of professional accountancy bodies ("POBA")

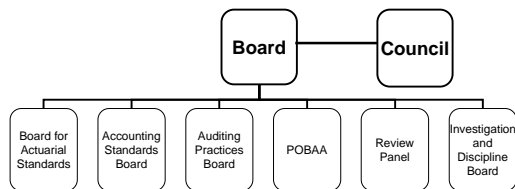
ROLE OF THE FRC FOR THE ACTUARIAL PROFESSION

- Create a Board for Actuarial Standards ("BAS")
- Extend the remit of POBA to oversee Actuarial Profession's role in:
 - Setting ethical standards
 - Running exams and CPD
 - Monitoring compliance with standards
 - Administering discipline procedures

FRC STRUCTURE – BEFORE



FRC STRUCTURE – AFTER



FRC – NEXT STEPS

- Morris has not provided a blueprint
- Discussions with FRC and Government (Treasury and DTI)
- Key issues to be agreed:
 - Legislative backing
 - Representation
 - Funding
- Will it cure perceived ills?

ROLE OF THE PROFESSION

- Input and membership of actuarial bodies within FRC structure
- Continue to set:
 - Ethical standards
 - Education syllabus
 - Disciplinary arrangements
- Forum for research and discussion
- Promote the actuarial profession

GI : MORRIS RECOMMENDATION No. 1

The review recommends that:

- the FSA consider consulting on introducing a requirement for general insurers to take appropriate advice from an approved person with relevant skills in risk assessment and the valuation of liabilities, who may or may not be a Fellow of the Institute or Faculty of Actuaries.

GI: MORRIS RECOMMENDATION No. 1 - ISSUES

- Morris Review gives positive steer
- Responsibility firmly with senior management
- Advice not restricted to actuaries
- Public interest / whistle-blowing duties
- FSA likely to "consider" seriously whether to consult
- Includes cost vs benefit analysis
- FSA might use existing powers
- Timing - 6m+ until consultation?
- Many issues to be considered - See paper
- GIB in regular discussion with FSA

GI: MORRIS RECOMMENDATION No. 2

The review recommends that:

- the FSA should consider consulting on introducing a requirement for actuarial advice as part of audit, in both the company market and the Lloyd's market for general insurers.

GI: MORRIS RECOMMENDATION No. 2 - ISSUES

- Not about improving quality of audit
- Considered in context of scrutiny of actuarial advice
- Wide support for this among respondents
- Clear direction in Lloyd's sector
- Is this the FSA's domain?
- Might be more to do with FRC or audit profession
- GIB talking to ICAEW initially
- Needs coordination with any other changes.

GI: MORRIS RECOMMENDATION No. 3

- the Financial Reporting Council, working closely with the FSA and the Profession, should –

within 2-3 years – satisfy itself that appropriate monitoring of actuaries' compliance with professional standards and independent scrutiny of actuarial advice is occurring through either direct supervision by the regulator, audit or external peer review.

GI: MORRIS RECOMMENDATION No. 3 - ISSUES

- Morris sees need for more scrutiny
 - Discussions with Lloyd's soon
 - Integration with possible audit role important
 - What to do if no internal actuaries?
- **Profession needs to develop a coordinated approach on all these issues.**
- **Vital that we add value in a cost-efficient way.**

OTHER PROFESSIONAL TOPICS

- GN12 and new GN structure
- GRIT
- ICAS guidance
- Pricing GRIT

ADDITIONAL SLIDES ON MORRIS REVIEW

- Market for actuarial services
- Education and CPD
- Standard Setting
- Public interest and accountability
- Next steps for the profession

MARKET FOR ACTUARIAL SERVICES

- “Understanding gap”
- Not enough challenge
- Educating non executive directors
- New communication standard
(first job for new Standards Board)

EDUCATION AND CPD

- Oversight of syllabus, exams and CPD
- 2005 changes “well formulated”
- Exams and training
 - More University based
 - Australian model praised
- CPD : major overhaul needed
- Monitoring CPD : enforcement of compliance

STANDARD SETTING

- BAS to set technical standards
 - Use ASB as a model
 - Standards for entities?
 - Bite on person doing work even if not an actuary?
 - Membership of Board?
 - Generic standard on communication
- Profession still to set general conduct and ethical standards
 - Subject to reserve powers for BAS

PUBLIC INTEREST AND ACCOUNTABILITY

- Public interest duties to:
 - Whistleblow to regulators
 - Comply with technical and ethical standards
- Whistleblowing to regulators
 - Clearer guidance
 - Extended obligations
 - Better protection

PUBLIC INTEREST AND ACCOUNTABILITY

- Reporting to the Profession
 - Non reserved roles
 - Confidentiality problem
 - Compliance with standards : enhanced scrutiny
 - Sharing information between regulators, profession and FRC

MORRIS NEXT STEPS

- Profession at a “crossroads”
- Defining our role and structures
- Participation in FRC’s change project
- Implementation : some “quick wins”?
 - Education strategy
 - Peer review for life actuaries
 - CPD scheme
