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Regulatory Update: all that you ever wanted to know about professional regulation and more...

Emma Gilpin, IFoA
Christine McConnell, IFoA
Ann Muldoon, FRC



Agenda

- ❖ Some key things you need to know about:
 - Review of the Actuaries' Code
 - New Technical Actuarial Standards
 - New requirements for applying standards (APS X1)
 - APS X2 – one year on
 - Practising Certificates review
 - What are Risk Alerts
 - Update on Quality Assurance Scheme accreditation
- ❖ Case studies
- ❖ Tenuous links to a famous Scottish alcoholic beverage and some terrible puns...



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Scene setting...



IFoA

FRC

PRA

FCA

tPR

Govt (UK & others)

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Scene setting...

IFoA

Ethical Standards (APSs)
Technical Standards (non UK)

Education and examinations
CPD
Practising certificates
Member support

Disciplinary Scheme

FRC (UK)

Generic TASs
Specific TASs

Professional oversight

Public interest disciplinary cases

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The classics...



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Review of the Actuaries' Code

- ❖ Follows 'light-touch' review of 2013
- ❖ Terms of reference include consideration of:
 - Whether the Code remains fit for purpose in light of experience since 2009.
 - Whether the Code appropriately reflects the international nature of the IFoA's membership.
 - How the Code interacts and fits with the FRC's revised framework of technical standards.
- ❖ Full consultation in early 2017
- ❖ Revised Code expected late 2017
- ❖ Likely to come into force 2018



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What might change? Initial thinking...

- ❖ Might be more and/or reworded principles
- ❖ Hopefully clearer structure
- ❖ Simplification of language
- ❖ Substantive provisions won't change unless there is good, evidence based reason to do so

... will be full consultation whatever is proposed!



New Technical Actuarial Standards

- ❖ Some of you might be familiar with the current TASs
- ❖ Set by the Financial Reporting Council
- ❖ UK only
- ❖ Current framework – limited scope (only certain work)
- ❖ Review of the framework – consultations
- ❖ Proposed new TAS 100 and revised TASs for insurance, pensions and funeral plans

So... why do you all need to know about them?



Why you need to know about them...

- ❖ Because the TAS 100 will apply to ALL IFoA Members where they are carrying out 'Technical Actuarial Work' within 'UK Geographic Scope'
- ❖ No longer just those carrying out certain types of work
- ❖ Specific TASs will still remain for certain areas (including insurance)

DID YOU
KNOW?



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TAS 100 – General TAS

- ❖ Based on existing 'generic' TASs
- ❖ BUT unlike generic TASs – don't require work to be within scope of specific TASs
- ❖ Framework document replaces Scope and Authority
- ❖ Reliability Objective remains:
 - Users for whom a piece of actuarial information was created should be able to place a high degree of reliance on the information's relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information



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TAS 100 – General TAS

❖ Applies to 'Technical Actuarial Work'

- Work performed for a **user**:
 1. where the use of principles and/or techniques of actuarial science is central to the work and which involves the exercise of judgement; or
 2. which the **user** may reasonably regard as technical actuarial work by virtue of the manner of its presentation.



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TAS 100 – General TAS

❖ Covers areas such as:

- Judgement
- Data
- Assumptions
- Models
- Communications
- Documentation



❖ Guidance and case studies to be produced by the IFoA



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Summary Scope of TAS 200 compared with current Insurance TAS

Retained	New – scope clarified	Removed
<ul style="list-style-type: none"> Regulatory balance sheets and financial statements Risk modelling for regulatory capital and ORSA Insurance Transformations Audit and Assurance Pricing frameworks Lloyd's syndicates With-profits discretion General Insurance tax 	<ul style="list-style-type: none"> ORSA risk modelling Extension of audit support 	<ul style="list-style-type: none"> Embedded values Pricing of individual contracts of significant risk to the insurer M&A work Commutations Lloyd's reinsurance to close Reviewable rate contracts

Note : All work now subject to TAS 100



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Timescale



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The foreign import...



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What to do if you are carrying out non-UK work

- ❖ Practical issues you might face
 - Language barriers
 - Cultural differences
 - Complex international corporate structures
 - Competing standards
- ❖ May wonder if you are required to apply UK standards and what is meant by 'UK geographic scope'
- ❖ May wonder if you can choose to apply them or to agree which standards to apply with the user
- ❖ May wonder where international standards fit in to all of this



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New standard on applying standards

- ❖ New Actuarial Profession Standard - APS X1
- ❖ Final version being refined – expected publication later this year
- ❖ Due to come into force at same time as new TASs (estimated 1 July 2017) but early adoption will be encouraged
- ❖ Detailed guide (with case studies)
- ❖ Replaces the non-mandatory Standards Decision Tree
- ❖ Aims to set out:
 - How IFoA standards, international standards and the FRC's technical standards apply to IFoA members;
 - How members carrying out work overseas should determine which standards to apply



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The provisions (subject to final approval)

- ❖ All members must comply with the Actuaries' Code and relevant APSs
- ❖ If the work is within 'UK Geographic Scope' (as defined by the FRC) then members must apply the TAS framework
- ❖ Where a member is carrying out work in a place where there is a 'Relevant Authority' that sets their own standards then there is a presumption they will be applied
- ❖ A member might apply those standards as an alternative to APSs if they have equivalent requirement
- ❖ Or those carrying out non-UK work, must exercise reasonable judgement to consider whether there are other relevant standards that ought to be applied

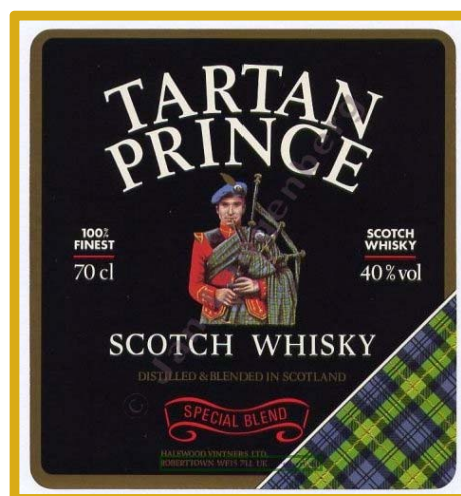


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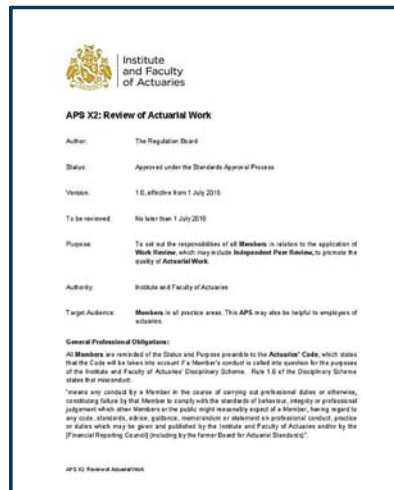
The provisions – general principle

- ❖ General principle introduced:
 - All Members must meet the same minimum requirement of applying a set of standards that are substantially consistent with IAA model standard ISAP 1
 - Can meet this requirement in a range of ways
 - Various ways in which 'presumed' to be meeting that requirement (including applying the IFoA standards plus FRC's TAS 100)
- ❖ Practical help in the form of different case studies

The importance of 'check'ing...



APS X2: Review of Actuarial Work



APS X2 – one year on

- ❖ In force since 1 July 2015
- ❖ Cross practice standard on work review
- ❖ General feedback positive
- ❖ Principles based approach welcomed
- ❖ Roundtable for employers
- ❖ Proposed post implementation review
- ❖ Part of the QAS assessment process



Commonly asked questions

- ❖ Extent of definition of Actuarial Work
- ❖ APS X2 and review of 'review' work
- ❖ Scope for agreeing non-compliance with client
- ❖ Review by a non-actuary or by a non PC holder
- ❖ Application to a junior actuary acting under supervision
- ❖ Requirements to record whether review has been applied



The gold standard...



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Quality Assurance Scheme - update

- ❖ First accreditations announced in April
- ❖ Currently 26 organisations accredited
 - Mainly actuarial consultancy firms (different practice areas)
 - Accountancy firms
 - One public sector employer
 - An actuarial software provider
- ❖ Represents coverage of employers of approx. 25% of the IFoA's UK membership



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Quality Assurance Scheme - update

- ❖ Some users of actuarial services requiring it as part of their tender process – expect that to increase
- ❖ Currently developing plans for future development of the QAS including links with IFoA regulatory requirements such as CPD and Practising Certificates
- ❖ Next Senior Quality Assurance Representatives Forum scheduled for November 2016
- ❖ Initial work to explore potential pilot of the QAS outside of the UK
- ❖ Lots of interest from insurers in South East Asia



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Something a little special...



WHISKY SOUR

Fill a shaker with ice. ...

Pour Scotch Whisky, lemon juice, sugar syrup, angostura bitters and egg white into the shaker.

...

Shake the mixture vigorously until the surface of the cocktail shaker feels chilled.

Strain into a glass. ...

Garnish with a wedge of lemon.



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Practising Certificate Regime

Why?

- To ensure the protection of the public interest by establishing a suitably proportionate, risk focussed and targeted regulatory framework
- To give **users** confidence in the advice they receive
- To allow members to demonstrate their capability and suitability



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Practising Certificate Regime

APS L1

A Member who is a Chief Actuary must hold a Chief Actuary (Life) Practising Certificate.

Similar provisions for With Profits Actuaries, Appropriate Actuaries and Reviewing Actuaries

Is under review-

- To ensure clarity of provisions in relation to Chief Actuary
- Non-solvency II roles
- Reviewing Actuary roles

With- Profits Actuary PCs

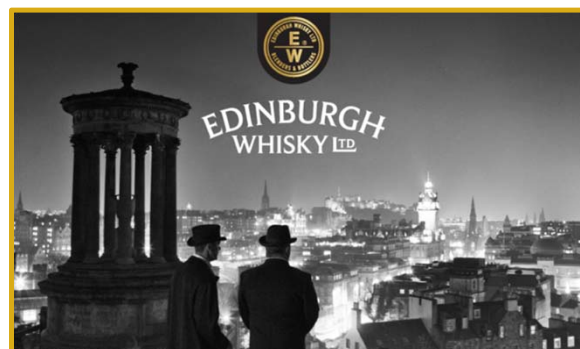
Is there a gap between supply and demand?



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So how does this work in Practice?

- ❖ Practising Certificate Committee
 - meets twice a year
 - is a sub-committee of the Regulation Board
- ❖ Individual panels for each certificate
 - including a life panel
 - in “constant” communication
- ❖ Do have discretion...and use it
- ❖ And there is an appeals process



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The Practising Certificate Regime is under review.....

Terms of Reference include consideration of:-

- Purpose of the PC regime
- Classification of Certificates
- Criteria
- Process
- Attestations



Watch this space!!!



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The risky option...



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Risks

What are the risks to the public interest which arise from actuarial activity?



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Risk Outlook

- ❖ Joint Forum on Actuarial Regulation (JFAR) Risk Perspective project
- ❖ Regulation Board initiative



- ❖ Risk Alerts
- ❖ Commutation Factors
- ❖ GI Reserving



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What other risks can you foresee?



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What next?



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The views expressed in this presentation are those of the presenter.

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Case Study

- Mr MacDougall is an Actuary who worked in house at large UK insurance company, Saltire Insurance who sought to purchase another smaller insurance company, Boutique Insurance who were based in Holland. As part of their processes, Saltire Insurance asked Mr MacDougall to investigate the health of the insurance products offered by Boutique Insurance.
- Mr MacDougall completed several valuation reports on the products offered by Boutique Insurance in the later part of 2015. These reports were used as part of the merger and acquisition process. As Boutique Insurance is outside of the UK and due to the fact the work was time pressured, Mr MacDougall did not get these valuation reports reviewed.
- Boutique Insurance was bought by Saltire Insurance in January 2016, and Mr MacDougall went to work for another firm in March 2016. Ms Macpherson, a new Actuary who now works on the merged teams, reviewed Mr MacDougall's reports and was concerned that the appropriate TASs had not been followed in terms of the expense assumptions, but also that the work had not been reviewed. She made a complaint to the IFoA about Mr MacDougall's compliance and competence.



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Questions

Comments

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