

Actuarial Profession Open Forum

16 September 2008

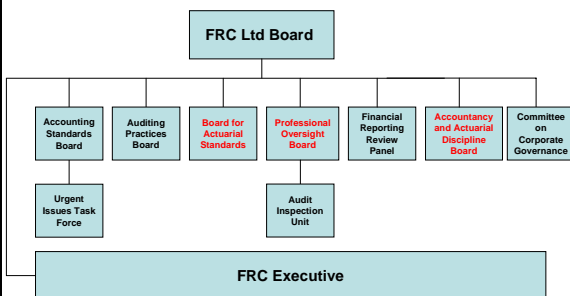


Promoting actuarial quality
Louise Pryor

Monitoring and scrutiny of
actuarial work
Paul Kennedy



The FRC's operating bodies



The FRC's aim

... is to promote confidence in
corporate reporting and
governance



The FRC's objectives

To promote:

- high quality **corporate reporting**
- high quality **auditing**
- high *quality* **actuarial practice**
- high standards of **corporate governance**
- the *integrity*, *competence* and *transparency* of
the **accountancy & actuarial professions**
- the FRC's **effectiveness** as an independent
regulator



The FRC's (actuarial) strategic outcomes

- Actuarial practice (BAS/POB)
users of actuarial information can place a high degree
of reliance on its relevance, transparency of
assumptions, completeness and comprehensibility
- Professionalism (POB/AADB)
clients and employers of professionally qualified
actuaries and of actuarial firms can rely on them to
act with integrity and competence, having regard to
the public interest



Nature and scope of actuarial practice (I)

- Widespread use of actuaries and actuarial information in insurance, pensions and investment
- Actuaries regulated as individuals
 - may act as employees or external consultants
- Mathematical models are a feature of actuarial work
 - Q2(i) Is the use and interpretation of mathematical models an underlying feature of actuarial work?



Nature and scope of actuarial practice (II)

- Actuarial work is used in
 - Pricing (and other transactions)
 - Financial management of the business
 - Reporting to stakeholders
- Increasingly, management and directors must take responsibility for actuarial information
 - Q2(ii) What other features describe and distinguish the nature and scope of actuarial practice?



The challenge of actuarial quality (life insurance)

- Recognised actuarial roles, actuarial models highly developed, accurate data, supervision by FSA
 - sensitivity to long-term assumptions
 - operational risks eg misselling, after-sales discretion
 - understanding gap
 - shareholder/policyholder/management conflicts



The challenge of actuarial quality (general insurance)

- Actuarial expertise at a premium, wide range of modelling techniques, importance of industry knowledge, supervision by FSA/Lloyd's
 - uncertainty and limited data
 - dependent on claims-handling approach
 - difficult to resist management pressure on judgments

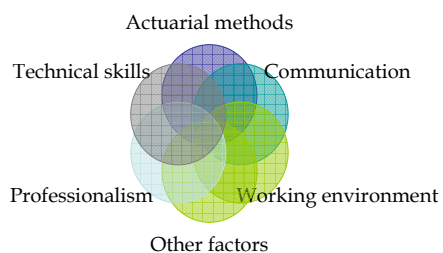


The challenge of actuarial quality (pensions)

- Trustee/sponsor negotiation, advisory role of actuaries, role of Pensions Regulator, PPF, FRS17/IAS19
 - trustee/member/sponsor/adviser conflicts
 - understanding of lay trustees
 - matters outside traditional expertise eg legal, employer covenants
 - variable data
 - isolation of small firms



Drivers of actuarial quality



Actuarial methods - reliability and usefulness

- Effective use of models
- Directed to user needs, proportionate to benefits
- Model reproducibility, data checks
- Robust criteria for selecting assumptions, exploring risk and uncertainty
- Effective and continuing review
- Principles-based technical standards



Technical skills

- Profession attracts broad range of high quality applicants
- Broad training in financial, economic, statistical theory and practice
- Adept at using and interpreting latest actuarial and other methods
- Understand clients' business
- Continuing exposure to wide range of methods and applications



Communication

- Clear and unambiguous, addressing user needs
- Sufficient information
 - Not obscured by irrelevant detail
- Indication of inherent uncertainty
 - Including key risks
- Discussions with clients
 - user needs and scope, limitations, key risks, qualitative aspects of data and systems...



Professionalism

- Aspire to highest standards of conduct
 - do the right thing in public interest
 - see this as enhancing their reputation
- Exhibit impartiality
 - robust in identifying and resisting pressures
- Relevant training and guidance
- Speak up when reasonable grounds for concern about use of actuarial work



Working environment

- Provides professional leadership
 - culture of openness and learning from mistakes
- Actuarial quality is valued, invested in and rewarded
 - promotes professional development
- Commercial considerations don't have negative effect on quality
- Effective arrangements for controlling and monitoring actuarial quality
- Procedures for managing conflicts



Other factors

- Corporate governance recognises responsibilities for taking decisions and reporting
- Effective external review mechanisms
- Stakeholders support and recognise use of actuarial expertise
 - encourage governing bodies and management to meet their obligations
- Arrangements for dealing with professional shortcomings
- Regulatory environment for actuaries focuses on drivers of actuarial quality



Drivers of actuarial quality - summary

- Reliability and usefulness of actuarial methods
- Technical skills of actuaries
- Communication of actuarial information and advice
- Ethics and professionalism of actuaries
- Working environment
- Other factors outside the control of actuaries

Q4(i) Have we identified the key drivers of quality?
How can they be added to, redefined or restructured?

Q4(ii) Do other drivers apply in sectors apart from life insurance,
general insurance and pensions?



Monitoring and scrutiny of actuarial work

“The FRC should ... satisfy itself ... that appropriate monitoring of actuaries’ compliance with professional standards and independent scrutiny of actuarial work is occurring through either direct supervision by the regulator, audit or external peer review.”

Morris Review (x3), March 2005



Morris analysis of monitoring and scrutiny methods

- Professional quality assurance
 - private or external peer review
- Challenge by direct clients
 - management and governing bodies
- Audit
- Supervision by regulators or Profession
- Other independent scrutiny:
 - Courts/complaint schemes/reviews
 - Public comment – press, rating agencies



Monitoring and scrutiny: our approach

- Regulatory analysis and collaboration:
 - Profession, FSA, Pensions Regulator
- Survey of actuarial firms:
 - Any firm offering actuarial services to external clients
- Stakeholder input
- Development of options



Monitoring and scrutiny: options

Strategy	Options
1. Support for regulatory and market monitoring and scrutiny processes	Education, information to support review, audit work
2. Professional quality assurance requirements on individuals/firms	Peer review, scrutiny of practice environment
3. Active monitoring of actuarial work	Independent inspection by the Profession, other body



Our provisional assessment [Q1/Q2]

- Enhanced independent scrutiny since Morris:
 - Primarily through regulatory supervision/monitoring/triggers
 - Greater role for governing bodies
 - Expanded role of audit
- Limited monitoring of compliance with actuarial standards:
 - Reviewing actuary role in audit (life) – regulatory reporting
 - Lloyd's (general) – syndicates only
 - Compliance review (pensions) – mainly internal
- Limited scope of actuarial standards



Monitoring and scrutiny of actuarial work in life insurance

Strategy 1 – support for regulatory and market monitoring and scrutiny processes

- Education/CPD in review and audit skills
- Quality assurance standards/guidance
- Clearer whistle-blowing guidance
- Transparency through publication of research/statistics

{Q3}



Monitoring and scrutiny of actuarial work in general insurance

Strategy 1 – support for regulatory and market monitoring and scrutiny processes

- Education/CPD in review and audit skills
- Quality assurance standards/guidance
- Clearer whistle-blowing guidance
- Transparency through publication of research/statistics

{Q4}



Monitoring and scrutiny of actuarial work in pensions

Strategy 1/2 – support and professional quality assurance requirements for individuals/firms

{Q5(i-iii, vi)}

Education/standards/guidance/transparency

- Expand GN48 to cover M&A/ FRS17/IAS19
- Independence: external peer review (Ireland) and/or independent advice to sponsors
- Administrative monitoring of GN48 compliance
- Practising certificate requirements

Strategy 3 – independent monitoring? {Q5(v)}



Monitoring and scrutiny: the role of firms

- Survey: 34 responses (range of sizes, insurers)
- 3 group discussions with smaller firms
- Firms focusing on quality assurance:
 - client satisfaction/ kite marks
 - internal compliance review
- Recognise individual professional judgment but:
 - Firms organise training/conflicts/compliance review
 - Often implicit/explicit 'house view'
- Variable approach to quality assurance
- Uncertainty about best practice



Monitoring and scrutiny: options for the role of firms {Q5(iv)}

- Quality assurance guidance to firms
- Formal conditions on issue of practising certificates for individuals relating to practice environment:
 - CPD/compliance review/conflicts
 - Profession, or an independent body, could monitor practice environment not individual actuaries
- Permit firms to hold group or corporate practising certificates:
 - subsidiary certificates for actuaries in those firms
 - could relax legislation to allow appointment of firms to reserved roles



Monitoring and scrutiny of actuarial work: Questions

- Enhanced independent scrutiny of actuarial advice? {Q1}
- Limited monitoring of compliance with professional standards? {Q2}
- Strategy 1 for life insurance? {Q3}
- Strategy 1 for general insurance? {Q4}
- Strategy 1/2 for pensions? {Q5(i-iii, vi)}
- Regulatory emphasis on the role of firms? {Q5(iv)}
- Strategy 3 – Actuarial Inspection Unit? {Q5(v)}
- Strategy for other activities? {Q6}
- Costs and benefits {Q7}