

*J.I.A.* 119, II, 365-368**THE ROLE OF THE APPOINTED ACTUARY**

SEMINAR, 18 MARCH 1992

THE Institute of Actuaries and the Faculty of Actuaries held a joint seminar at Staple Inn Hall on the subject of 'The Role of the Appointed Actuary' on 18 March 1992. The seminar was attended by 120 people, and was chaired by Mr Duncan Ferguson.

The aim of the seminar was more than adequately expressed by the Chairman in his opening remarks. For many actuaries, becoming an Appointed Actuary was the high point in the individual's career. The individual needed great technical knowledge, professional judgement and, above all, the ability to handle potential conflicts of interest. The seminar was to show some aspects of this demanding role to aspiring Appointed Actuaries. The Chairman also pointed out the topical nature of the seminar, with questions being raised on the role within the framework of European legislation and the possible extension of the role into other areas such as pensions and non-life insurance.

The rest of the day was divided into eight presentations. In the morning there were three longer presentations on general topics, and in the afternoon there were five shorter presentations dealing with practical points.

Mr David Purchase gave the first presentation dealing with the professional developments in the role of the Appointed Actuary. After giving a potted history of the role, which only dates back to 1973, Mr Purchase began by describing the development of 'Practising Certificates' for Appointed Actuaries. The Government Actuary's Department had required that the Appointed Actuary start certifying that all relevant Guidance Notes had been followed and that Appointed Actuaries were in receipt of Practising Certificates. These Certificates would need to be renewed annually and would be held by the individual rather than in his particular capacity in any one company. The requirements necessary to qualify would be that the individual would be an F.I.A. or an F.F.A., aged 30 or more, with up-to-date Continuing Professional Development (CPD) with at least 2/3rds of formal CPD being relevant to the role of Appointed Actuary, has the necessary practical experience, has attended a Professionalism course, has had no adverse tribunal finding and is an 'appropriate person' (similar to 'fit and proper' requirements).

Mr Purchase then described the decisions of Council on CPD. The primary requirement of 15 hours of formal CPD was described as well as what constituted formal CPD against informal CPD. He emphasised that the Institute and the Faculty would make sure there was enough formal CPD available for members, primarily through the 'Current Issues in Life Assurance' set of seminars, as well as Harrogate Conventions. He then described the changes taking place to GN1 and GN8. The chief changes were in giving more emphasis to Policyholders'

Reasonable Expectations, ensuring proper emphasis is placed on the Actuary's need for appropriate knowledge and relevant practical experience, and that the Actuary ensures he has proper access to the Board and all relevant information. Relevant features to the Actuary's view of the company were being extended and resilience testing is now emphasised. He then wound up with a description of the booklet on 'The Role of the Appointed Actuary in the United Kingdom'. This was written as a short guide running to no more than 3½ pages of A5. Copies were being sent to all Chief Executive Officers and Chairmen of life companies.

The second presentation of the day was delivered by Mr Mike Pickford of GAD on the role of GAD. He started with a potted history of GAD, before going on to describe the structure and the current agreement with the DTI on their respective areas of responsibility. The meeting that every Appointed Actuary has with GAD was described, showing the particular concern that GAD has: is the Appointed Actuary someone with real responsibility and authority within the organisation? GAD is particularly interested in the committees the Appointed Actuary sits on. It expects the Appointed Actuary to be on the Investment Committee and maybe also on the Finance Committee and the Marketing Committee.

Mr Pickford went on to describe the setting of priorities on Companies' DTI Returns, based on an initial scrutiny within a week of receiving them. The 4 priority ratings varied from 'major breaches' and companies in serious financial difficulties requiring instant attention, to companies who did not need to have their Returns examined in detail until up to a year in arrears. He finally mentioned how GAD saw the company visits developing. Of particular interest to GAD in future would be discussions on the Actuary's report to the Board, asset share calculations and methodology, mismatching and resilience testing and detailed business planning carried out by the companies.

Mr Gordon Ireland then gave a presentation on the role of the Appointed Actuary from the viewpoint of the auditor. The auditor is required to sign the Companies Act Accounts and, for this, he needs to use the Actuary as he would use any expert. The auditing guidelines require the auditor to check the database quality of the actuarial valuation, including any checks made between the accounting and the valuation database. He needs to check that the correct assets have been used in the valuation, that adequate valuation procedures are followed and the validity of the transfer to the Shareholder's Fund. He needs to view any correspondence between the Company or Actuary and GAD/DTI. The 'management letter' needs to be discussed with the Actuary. Mr Ireland finished his presentation with a description of Section 21A procedure for the auditor discussing the company with the DTI and his view that he should be the last person in the offices of the DTI in an honest situation. He gave as handouts copies of professional guidance on insurance company audits from the accountancy profession.

The afternoon sessions concentrated on the role of the Appointed Actuary in practice. Mr Mike Shelley started the proceedings with a presentation of the

results of the Institute and the Faculty survey of Appointed Actuaries. This reiterated some of the worries of GAD that the Appointed Actuary, in some cases, was not exercising sufficient influence over important issues of life office management.

Mr Bernard Brindley then gave a presentation on the role of the Actuary in a mutual office. He emphasised the importance of running the mutual as if it was a business run for its owners. He particularly stressed four major areas of importance. The first was bonus philosophy, equity and reasonable expectations. He described the method used by one mutual to calculate asset shares for its with-profits policies, and how it used that asset share calculation to derive its bonus rates after any necessary smoothing. Of particular interest was the amount of data necessary, by going right back to the early 1950s, to derive the asset shares of policies now maturing. The next area was capital. Mr Brindley was very frank here in his description of how modelling the office has led to reductions in the bonus rate for his office. The third area was expenses. Mr Brindley described the method he employed to monitor actual expenses versus allowances on a monthly basis. The amount of data on old policy types was emphasised in a reply to a question on the subject. He stated that commission now required the same amount of attention on a monthly basis. The fourth area was investment return. Of particular interest was the necessary rate of return on investments to support the bonus rate currently given.

Mr Mike Abbott gave the third presentation of the afternoon, dealing with a unit linked office. He emphasised the need to monitor solvency and to ensure that policyholders' reasonable expectations are being met. Monitoring solvency was to be achieved through the valuation process, and he mentioned the lack of proper valuation regulations for unit linked policies. Mismatching between asset units and liability units (as defined by the Actuary's valuation) in the box that all companies run was a particular area of concern to the unit linked actuary, as well as the inherent mismatching in policies with negative sterling reserves. Maturity guarantees needed careful handling, and CGT reserves brought up a wealth of questions. Mr Abbott emphasised the need to resolve conflicts of interest in ensuring that policyholders' reasonable expectations were met. The prime area of concern was unit pricing, which the Appointed Actuary should ensure he oversees. He should ensure equity between generations of policyholders and also between the shareholder and the policyholder. The Appointed Actuary had also to consider the variable charges within modern unit linked policies. The Appointed Actuary must be aware that policyholders' reasonable expectations are framed by the marketing literature. The lack of formal regulations on the running of internal funds was no doubt due to the Appointed Actuary system.

Mr Mike Poulding gave a presentation on the role of the Appointed Actuary in a bank subsidiary. He explained the importance of ensuring that the Appointed Actuary was on all key committees and was able to talk directly to the Bank's Board. He explained the differences in bank and life company culture. This was certainly marked in product development and reinsurance. Bankers tended to

look upon reinsurance as a credit exercise. Product development was controlled by the bank's central committee on product development. Mr Poulding emphasised the care required in profit reporting, on expense allocation and the need to fully explain embedded values to bankers, and he completed his presentation with a note of the very tight reporting timescales required.

Mr Tony Fine gave a presentation on the role of the Appointed Actuary as a consultant. He emphasised the strengths and weaknesses of the consultant as Appointed Actuary. The weaknesses were due to a lack of intimate knowledge of the company and a lack of contact with the people in the company. The consultant needed to make sure that he was available to discuss results with the company. Mr Fine emphasised that the weaknesses could be turned into strengths. The lack of intimate knowledge meant that the consultant would set our requirements for knowledge, demand to see minutes of key committees and demand to be involved in key financial decisions. Communication became more disciplined, and this forced discipline on methods and calculation. He also emphasised that consultants are more aware of the dual role of Appointed Actuary and advisor to the company, and would be careful over potential conflicts of interest.

Mr Brendan McBride finished the collection of presentations on the practical aspects of the role with a presentation on the Appointed Actuary in a merger situation. He emphasised the need for the Appointed Actuary to think carefully over his role in this situation. The Board should be fully apprised of the company's finances, and the Appointed Actuary should ensure that policyholders' reasonable expectations remain to the fore in any discussions. The requirement to work extremely quickly was mentioned. He gave a detailed account of the process of merger or takeover, and stressed the importance of the Appointed Actuary's role in giving advice to the policyholders with the independent actuary giving a 'second opinion'.

A forum followed with a question and answer session. Questions ranged from queries on the GAD's view to the reporting necessary from a consultant's firm on policies held by the partners in the company.

S. W. DIXON