TALK TO GIRO CONVENTION – 13 OCTOBER 1999

1. The work of the General Insurance Board is, in large part, carried out through six committees which report to it. All of these committees, with the exceptions of Professional Guidance and Standards and Public Relations, are short of members and this is particularly so in the case of the Education and CPD Committee. I would thus like to open my talk today by asking anyone who may be interested in joining any of the Committees other than Professional Guidance and Standards and Public Relations to contact either the Committee chairman or Barbara Beebee, the Board's secretary, sometime during the course of our proceedings. The conduct of the examinations is not the responsibility of the GI Board, but I understand that there is an acute shortage of assistant examiners for subject 303. If you feel you can help here please contact Julian Leigh.

2. I would now like to say a few words about statutory actuarial reporting. As most of you no doubt know, the FSA is drafting its prudential sourcebook in two stages. At N2, the date on which the FSA takes over formal responsibility for, amongst other things, the prudential supervision of insurance companies, it is proposed that an interim sourcebook will be in place. This interim sourcebook, although looking very different from current legislation, will, in practice, make little change to the existing regime. It will, however, have to incorporate the provisions of the Insurance Groups Directive and is likely to shorten the current six month grace period for the production of the regulatory returns. N2 is expected to be around June of next year.

3. At around N2 + 1½ years, the FSA expect to replace the interim sourcebook by a final prudential sourcebook. This final sourcebook is intended to introduce a risk based approach to supervision. A possible role for actuarial reporting on the financial condition of an insurance company and the sensitivity of the company's balance sheet to future developments is the subject of continuing discussions between the profession and the FSA within the framework of risk based superivsion. One possibility is that an insurance company which appoints an actuary to report formally on its financial condition may, as a direct consequence, be subject to lighter general supervision. Given the constraints of the EC Directives, it is unlikely to be possible to vary minimum solvency margin requirements, which in any event are generally inadequate

and could remain so following the conclusion of the current review by the EC Commission. However, there are other aspects of the supervisory regime, such as the level of information in regulatory returns and frequency of company visits, which might be amenable to this type of approach.

4. I am pleased to say that Paul Sharma, who within the FSA is responsible for drafting the sourcebooks, is able to attend our convention and will be running a workshop on the Financial Services and Markets Bill. I think it is fair to say, that as yet the FSA's thinking on the whole subject of risk based supervision for insurance companies is in the embryonic stage. It is also fair to say that the profession's view on what should be included in a financial condition report, and the form of any dynamic solvency testing, has never been formally established – although Stewart Coutts did write an Institute sessional paper touching on some relevant aspects a few years ago. With the encouragement of the FSA, a working party is being established, under John Ryan's chairmanship, to prepare an Institute paper on this subject for the next sessional year.

5. Now, the Board is aware that some of you had concerns about the profession's position statement on actuarial opinions. As I understand it, there are three principal objections raised, although I appreciate that not every objection is necessarily held by all those concerned.

6. The first objection can perhaps be categorised as a free market objection. Of course, this type of objection can apply to all regulation if taken to extremes. I would argue that the approach I have outlined does attempt to meet this objection – the actuarial report would not be compulsory if an insurance company wished to accept the alternative of greater direct supervision by the FSA.

7. The second objection is that claims reserving work is the less value added side of our work and that by giving greater emphasis to this we are in danger of loosing out on other work. I am not sure that this has been the experience of the profession at Lloyd's, where there is already a statutory actuarial opinion for solvency reserves, but in any event I must emphasise that we envisage that the financial condition report will go much further than commenting only on the strength of the technical provisions. In order to achieve the aims of the FSA, it must also cover the adequacy of premium rates and reinsurance arrangements and the appropriateness of the investment policy.

8. The final objection is that the profession does not currently have the resources to carry out this function. Such a view is not accepted by either the Faculty and Institute Management Committee (FIMC), who must take a wider view of the supply of actuarial resources, or by the GI Board. In any event, however, I hope that my explanation of what is envisaged will reassure those who do hold this objection that any major change is still a few years away, giving the profession time to increase the actuarial resources available to the general insurance practice area.

9. If I could now turn to position statements more generally. Apart from that on actuarial opinions, the Board produced a position statement last year on the availability of personal lines insurance and this, like all other position statements approved by FIMC, is on the profession's Website. It is interesting to note that the issue of "red lining" is once again in the news. FIMC has asked the Board to produce further position statements on matters of public interest, in particular on some of the topics raised in the paper "Public Interest Issues" produced by the Working Party under Derek Newton's chairmanship. Position statements feature prominently in the profession's Vision and Values statement, and Colin Czapiewski is holding a workshop on Vision and Values at this conference. It is not practicable to consult the membership over the wording of position statements, and of course they do not have the authority of guidance notes. In particular they do not seek to regulate the relationship between the individual actuary and his employer or client. Nevertheless, the Board will be taking careful note of the points raised in the debate on this paper; if you have views on the many issues raised please make an effort to prepare your thoughts in advance and put them as succinctly as possible. It is important that as many people as possible have a chance to speak during this session.

10. The paper is sharing a session with, amongst other papers, a presentation from William Hewitson on proposals by a working party established by the profession to consider means of monitoring compliance with the Professional Conduct Standards and mandatory guidance notes. For our own practice area the guidance notes affected are GNs 20, 32 and 33, although all of these refer back to GN12. It is not intended that William's session will be anything other than informative but I can assure you that there would be plenty of opportunities for you to give your views on the proposals in due course. Personally, I am of the opinion that the profession needs to

be far more proactive in monitoring compliance with its guidance notes, but there are others on the Institute and Faculty Councils who do not share this view.

11. Lloyd's has been an area where the Board has been very active over the last twelve months. Practising Certificates have been introduced for actuaries giving the UK Lloyd's opinions. Regular meetings are held with Lloyd's Market Reporting and Solvency Division, and I was pleased that Lloyd's has been able to recruit an actuary, Bill McConnell, to assist, amongst other responsibilities, with the work of that Division. GNs 20 and 33 have gone through due process and the various advisory notes are being updated. The most difficult area has been the appropriate strength of the Y2K opinion, where the Board has to balance the observation made by Philip Twyman at GIRO last year about actuaries not ducking the difficult reserving issues, with a natural reluctance to commit the profession to giving a hard opinion when the extent of the Y2K problem is, as yet, unknown – at least in respect of dates on and after 31/12/99 (earlier problem dates appear to have passed off relatively uneventfully give or take the odd collision in the English Channel in August). There is also, of course, for insurers the problem with recovery of remedial expenditure which is currently the subject of legal action in the US. I hope that we will be able to achieve a reasonable balance.

12. Lloyd's has raised the possibility of a formal role for actuaries in relation to the RITC premium, although they have no intention of introducing it in the near future. A working party under David Hindley's chairmanship is currently preparing a paper on this subject, which will be presented at an Institute sessional meeting on 27 March 2000. The preparation of a paper on this subject is very worthwhile regardless of whether or not the profession has a formal role in opining on the fairness of the RITC premium and I hope there will be a good turnout at Staple Inn next spring.

13. I have already mentioned that GNs 20 and 33 have been revised and put through due process. In addition, GN12 was substantially revised, in part to extend its scope in accordance with our obligations under Groupe Consultatif agreements, and re-issued in September following due process. GN32, the Board's guidance note covering friendly society work, was also revised at the end of last year and GN18 is in the process of revision. Effectively, all of the Board's GNs will soon be up-to-date; a

considerable achievement and one which has taken up a large part of Board meetings over the last twelve months.

14. The Board continues to make input into the deliberations of the International Accounting Standards Committee on the production of an international accounting standard for insurance and also comments on proposals emanating from the EC Working Party review of the solvency margins for general insurance business. At FIMC level, however, most of the spotlight on accounting issues concerns proposals from the Accounting Standards Board to revise the accounting treatment for defined benefit occupational pension schemes. The debate on this subject can be quite heated, and I believe that insurance company actuaries need to be aware of developments here. It seems quite likely that pension scheme surpluses/deficits will end up on the balance sheet and for insurance companies a deficit will impact adversely on published solvency. Whether a surplus will assist published solvency will depend on whether or not it is classified as an admissible asset – a matter for the FSA to ponder (if Paul Sharma has a quiet moment). In any event, the position of any defined benefit occupational pension scheme is likely to be a factor, and possibly an important factor, to be considered when carrying out dynamic solvency testing.

15. Peter Johnson's Education and CPD Committee has carried out a review of the syllabus for examination 403. The conclusion is that 403 lacks to some extent the depth of the life equivalent and the aim is to rectify this for 2001, although changes are not likely to be very significant. Work is progressing on the production of core reading to support the revised syllabus – which must be approved by the profession's main Education and CPD Board.

16. The Education and CPD Committee, together with Julian Lowe's GIRO Committee, has expanded the number of courses run throughout the year. A pricing seminar was held in May, a joint meeting with CAS in June (to clash with the anarchists' day of action) and a seminar for the Lloyd's actuary earlier this month. This expansion has, in part, reflected the compulsory nature of CPD for actuaries seeking a Lloyd's practising certificate but also reflects the profession's wish to work closely with the North American actuarial associations – with mutual recognition of qualifications being an ultimate goal.

17. The Board has canvassed the views of actuarial employers on actuaries in general insurance, and Kathryn Morgan's Public Relation's Committee will be reporting on the findings. PR activities over the year have also included meetings with the ABI as well as Lloyd's and the FSA as referred to earlier, and we also will be making ourselves known to the new General Insurance Standards Council before that body starts its work in earnest.

18. The profession is keen to encourage a wider entry into the profession. One part of this initiative is reflected in the creation of a new Affiliate category of membership and the FIMC would like to encourage those general insurance practitioners who attend GIRO to apply for this. There are no designatory letters available to Affiliates but for only £100 pa (in the case of the Institute) the Affiliate becomes a member of the profession, receives the BAJ and The Actuary and is entitled to speak at, and present papers to, our sessional meetings. There are also social and networking aspects to the profession, such as dining clubs, which add considerably to the benefits associated with membership of the profession as well as obligations arising under our Professional Conduct Standards and guidance notes.

19. Reference to the two Councils leads me on to my final topic today. The General Insurance Board is forced, by comparison with other Practice Boards, to co-opt a high proportion of its membership. This is, to some extent, inevitable unless general insurance practitioners achieve considerable " over-representation" relative to their numbers on the two Councils.

20. Having said this, however, the annual elections to the Institute Council do provide an opportunity to ensure an adequate representation on that Council. Turnout in Council elections is only around 20%, so your vote really can have an impact.

P W Wright