



Institute
and Faculty
of Actuaries

The regulation of actuarial roles under the Solvency II regime

Feedback and responses

Regulation Board

June 2014

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1. INTRODUCTION

I am pleased to introduce this summary of the feedback received in response to the consultation paper on the regulation of actuarial roles under the Solvency II regime, issued by the Regulation Board in April 2014. The consultation closed on 13 June 2014. The Institute and Faculty of Actuaries (IFoA) has now analysed all of the responses received and, where we are not precluded from publishing due to the respondent's request for confidentiality, this feedback document summarises those responses.

The IFoA received a total of 121 responses to the survey on the discussion paper. Of those responses:

- 12 were received from organisations; and
- 109 represent the personal view of the individual respondents.

In addition to sending the discussion paper to all members of the IFoA, responses were invited from a number of organisations that employ actuaries and other stakeholders.

Respondents were invited to submit their responses to a total of 22 questions either via the online "survey monkey" tool or direct to the IFoA. The figures in the table below analyse the results received using survey monkey.

Consultation information meetings, held in London on 28 April 2014 and in Edinburgh on 13 May 2014, facilitated some helpful and constructive discussions regarding the proposals. A wide range of views was expressed from the audience of 16 in London although only one person attended in Edinburgh.

We are extremely grateful for the care and attention shown by all respondents in preparing their comments on the discussion paper and I hope you will find this summary of the feedback received both useful and informative.

A handwritten signature in black ink, appearing to read 'Desmond Hudson', with a horizontal line underneath.

Desmond Hudson
Chairman of the Regulation Board
August 2014

2. SUMMARY OF RESPONSES TO QUESTIONS RECEIVED

Q1 About You

Answer Options	Percent	Response Count
Name	100%	111
Name of Firm	3%	103
Position held	94%	104

Q2 Are you responding in your capacity as a representative of an organisation, as an individual member of the IFoA or other capacity?

Answer Options	Percent	Response Count
As a representative of an organisation	5%	5
As an individual	96%	106
Other	0%	0

Q3 If responding as an individual member, which category of membership do you hold?

Answer Options	Percent	Response Count
Student	11%	12
Affiliate	4%	4
Associate	5%	5
Fellow	81%	90
Honorary Fellow	0%	0

Q4 Please indicate the area in which you mainly work.

Answer Options	Percent	Response Count
Life Insurance	46%	51
*General Insurance (Total)	41%	46
Pensions	5%	5
Health & Care	4%	4
Finance and Investment	4%	4
Risk Management	17%	19
Other	6%	7

*(excluding Lloyd's)	24%	27
*(including Lloyd's)	17%	19

Q5 If you are responding on behalf of an organisation, please indicate the type of organisation?

Answer Options	Percent	Response Count
Insurance company	3%	35
Reinsurer	4%	4
Consultancy	12%	13
Other	6%	56

Q6 Where is your organisation based?

Answer Options	Percent	Response Count
UK	69%	74
Other Europe	19%	21
Outside Europe	12%	13
Please specify country	Ireland, Switzerland, Malaysia, India, S Africa, Guernsey, Germany, USA, Gibraltar, Cyprus, New Zealand	

Q7 If your answer to Q6 is different from your usual place of work, please specify.

Answer Options	Percent	Response Count
London, Chicago, France		3

Q8 Do you currently hold a practising certificate issued by the IFoA and, if so, which area of practice does it cover?

Answer Options	Percent	Response Count
Scheme Actuary	0%	0
Life (including with-profits)	11%	12
Life (not including with-profits)	2%	2
Lloyd's syndicate	1%	1
I do not hold a practising certificate	86%	93

Q9 Do you perform a role which will be covered by the Solvency II Directive?

Answer Options	Percent	Response Count
Yes	47%	47
No	53%	52

Q10 Do you want your name to remain confidential?

Answer Options	Percent	Response Count
Yes	73%	72
No	28%	27

Q11 Do you want your comments to remain confidential?

Answer Options	Percent	Response Count
Yes	54%	53
No	46%	46

Q12 With reference to the consultation paper, please indicate which of the options you prefer for each of the Solvency II roles. 85 responses were received. 26 skipped this question.

Note: respondents may have responded to more than one option in this question.

A detailed breakdown of the responses to this question is to be found at Appendix 1.

Answer Options	Actuarial Function	Risk Management	Internal Audit
Option 1-Technical Competency Standard	48	22	17
Option 2-Professional Suitability Standard	28	25	20
Option 3-Generic Qualification	40	30	28
No specific standard	16	32	34

Q13 If a practising certificate were to be offered, please indicate whether this should be offered as a compulsory or voluntary option for each of the functions.

83 answers were received. 28 skipped this question

Answer Options	Actuarial Function	Risk Management	Internal Audit
Compulsory	49	21	15
Voluntary	35	58	61
TOTAL	84	79	76

Q14 Please indicate whether you think that additional CPD is desirable for each of the functions.

Answer Options	Actuarial Function	Risk Management	Internal Audit
Yes	54	45	33
No	29	37	46
TOTAL	83	92	79

Q15 Please provide any comments to support your choices.

Comments
In total 49 comments were received. 31 of these were non-confidential and 18 were confidential. The non-confidential responses are attached at Appendix 2.

Q16 Thinking about the actuarial function, if the IFoA were to introduce a practising certificate, please suggest the criteria which you consider we could use to assess each of the following:

Answer Options	Response Count
Option 1 – Technical Competency Standard	40
Option 2 – Professional Suitability	37
Option 3 – Generic Qualification	43

Q17 Thinking about the risk management function, if the IFoA were to introduce a practising certificate, please suggest the criteria which you consider we could use to assess each of the following:

Answer Options	Response Count
Option 1 – Technical Competency Standard	37
Option 2 – Professional Suitability	35
Option 3 – Generic Qualification	39

- Q18** Thinking about the internal audit function, if the IFoA were to introduce a practising certificate, please suggest the criteria which you consider we could use to assess each of the following:

Answer Options	Response Count
Option 1 – Technical Competency Standard	37
Option 2 – Professional Suitability	33
Option 3 – Generic Qualification	40

- Q19** Do you think it appropriate that the holding of CERA qualification should be a requirement for the holding of a Solvency II risk management function? More detail on the CERA can be found on the CERA page of the website.

Answer Options	Percent	Response Count
Yes	26%	19
No	74%	55

- Q20** Do you think that any practising IFoA certificate for those carrying out Solvency II roles should be restricted to Fellows of the IFoA or should any of the following categories of professionals also be eligible to apply? Please tick the one with which you most agree.

Answer Options	Percent	Response Count
Restrict to Fellows of the IFoA	49%	34
Offer to members who are not Fellows and who may not yet be fully qualified	9%	6
Offer to Fellows of another actuarial body	26%	18
Offer to other members of another actuarial body	3%	2
Offer to non actuaries	3%	2
Place no restrictions on the membership category of who can apply	11%	8

- Q21** If practising certificates are used to support Solvency II roles, what improvements might be made to the existing regime to facilitate this? Please state the area(s) in which you think the practising certificate regime could be improved.

Comments
25 comments were received and non-confidential responses can be found at Appendix 3.

Q22 Do you have any other comments which you would like us to take into account in this consultation?

Answer Options	Percent	Response Count
Yes (non-confidential responses can be found at Appendix 4)	36%	24
No	64%	43

Responses to Q12 – Actuarial Function

Option 1: -
Technical Competence

Option 2: -
Professional Standard



OPTION 1	
Number	
Total Option 1	48
Total Option 1 and 2	7
Total Option 1, 2 and 3	15
Total Option 1 and 3	3
Option 1 only	23
OPTION 2	
Total Option 2	28
Total Option 2 and 3	3
Total Option 1, 2 and 3	15
Total Option 1 and 2	7
Option 2 only	3
OPTION 3	
Total Option 3	40
Total Option 2 and 3	3
Total Option 1, 2 and 3	15
Total Option 1 and 3	3
Option 3 only	19

54/85 i.e. 64% respondents in favour of option 1, option 2 or both

26 respondents did not answer this question

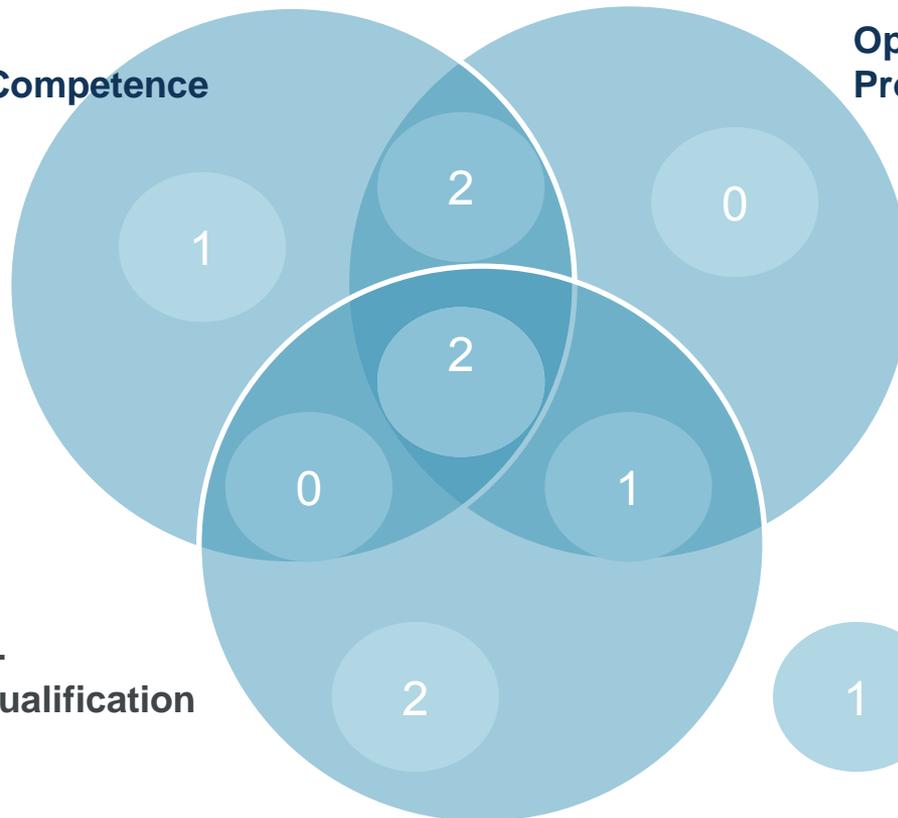
Responses to Q12 – Actuarial Function – analysis of responses from companies

Option 1:-

Technical Competence

Option 2: -

Professional Standard



Option 3: -

Generic Qualification

Option 4: -

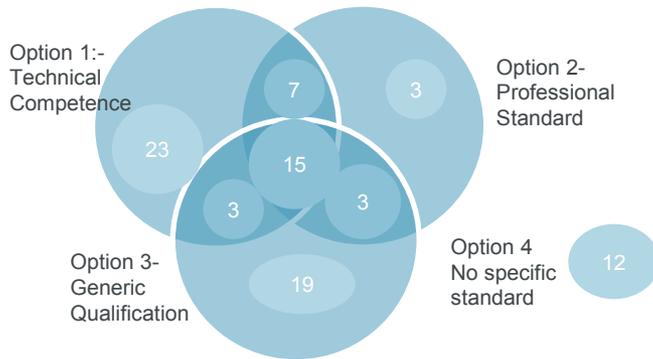
No specific standard

6 of 9 in favour of option 1, option 2 or both

2 respondents did not answer this question

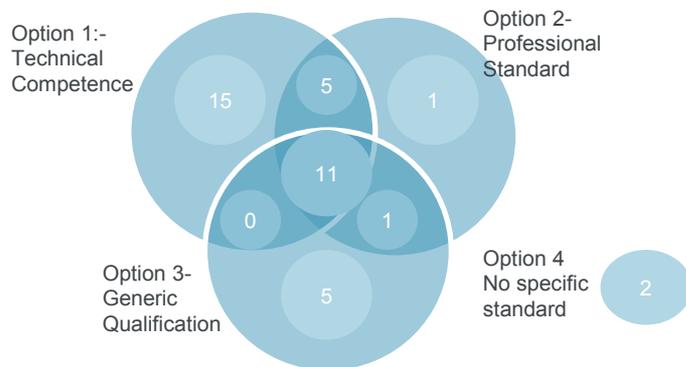
Responses to Q12 – Actuarial Function Life and GI split

Total



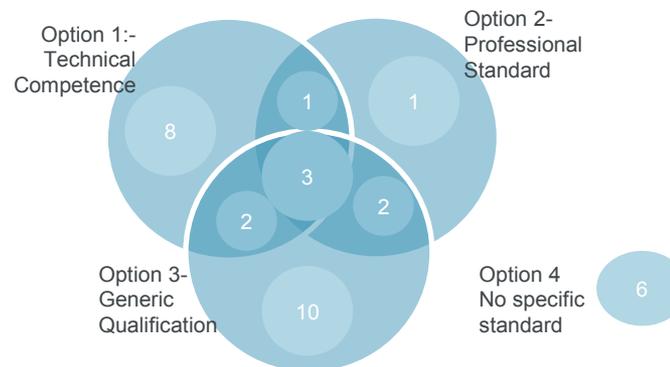
Includes 15 responses from other practice areas not analysed

Life only



11 of 51 didn't answer question
33 of 40 in favour of option 1 or option 2

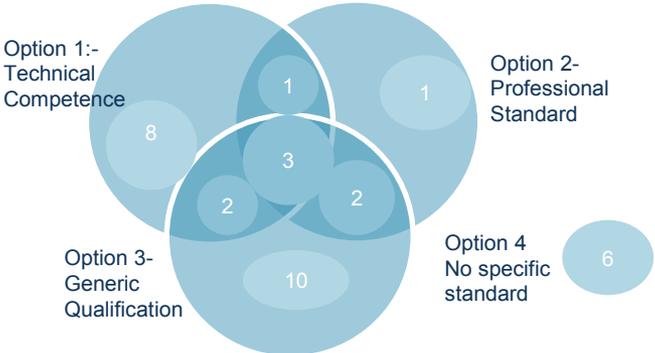
GI only



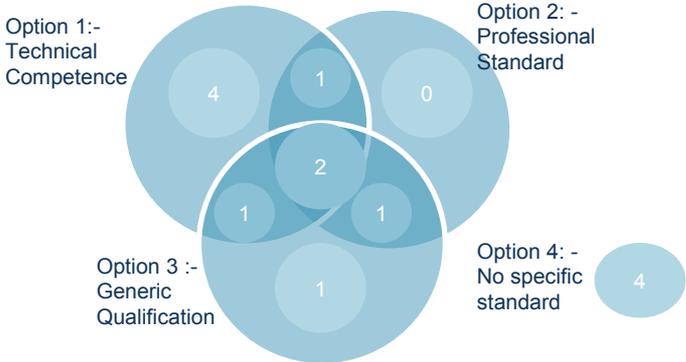
12 of 45 didn't answer question
17 of 33 in favour of option 1 or option 2

Responses to Q12 – Actuarial Function GI split – Lloyd’s and non Lloyd’s

Total GI

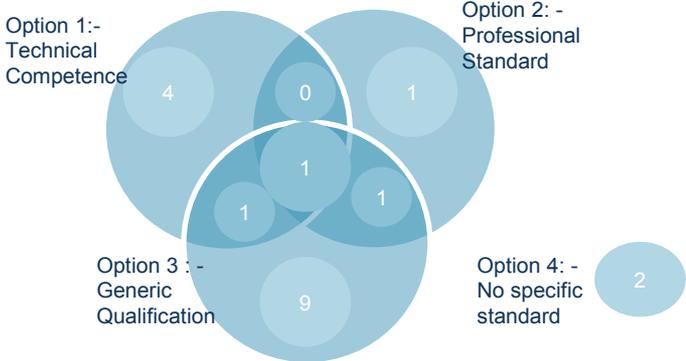


Lloyd’s



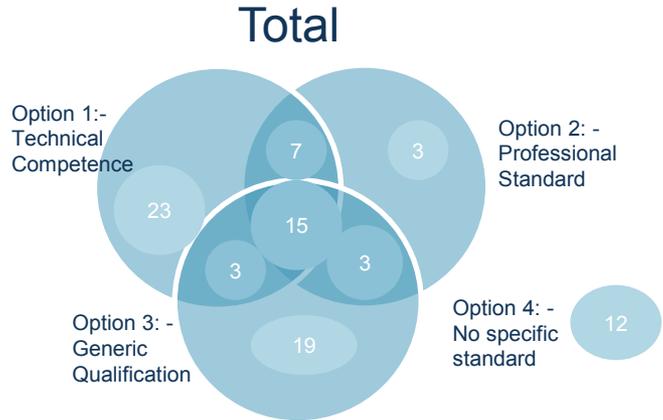
5 of 19 didn’t answer question
9 of 14 in favour of option 1 or option 2

Non Lloyd’s

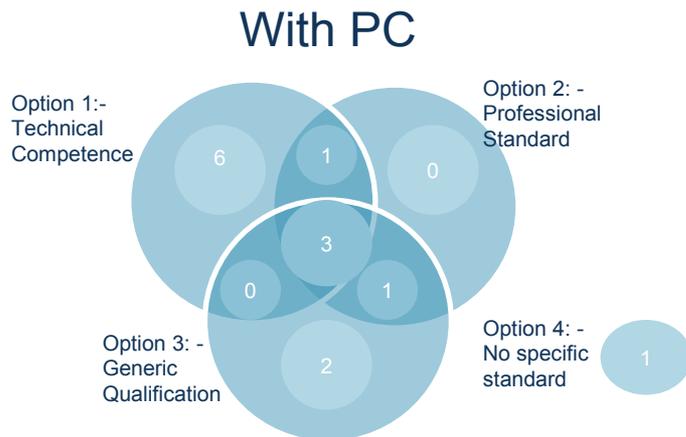


7 of 26 didn’t answer question
8 of 19 in favour of option 1 or option 2

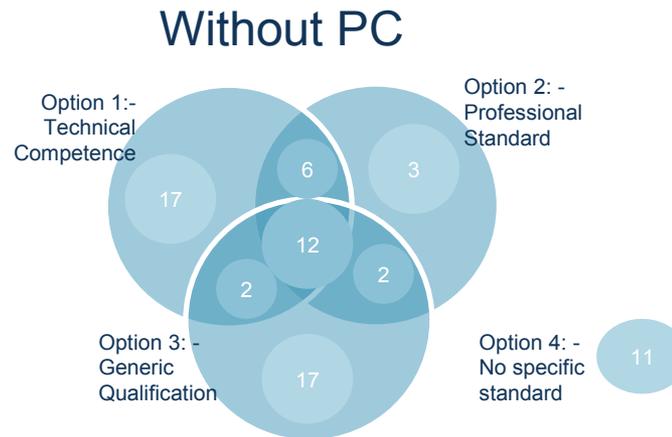
Responses to Q12 – Actuarial Function split between those respondents with and without PC



Includes 1 response not analysed below

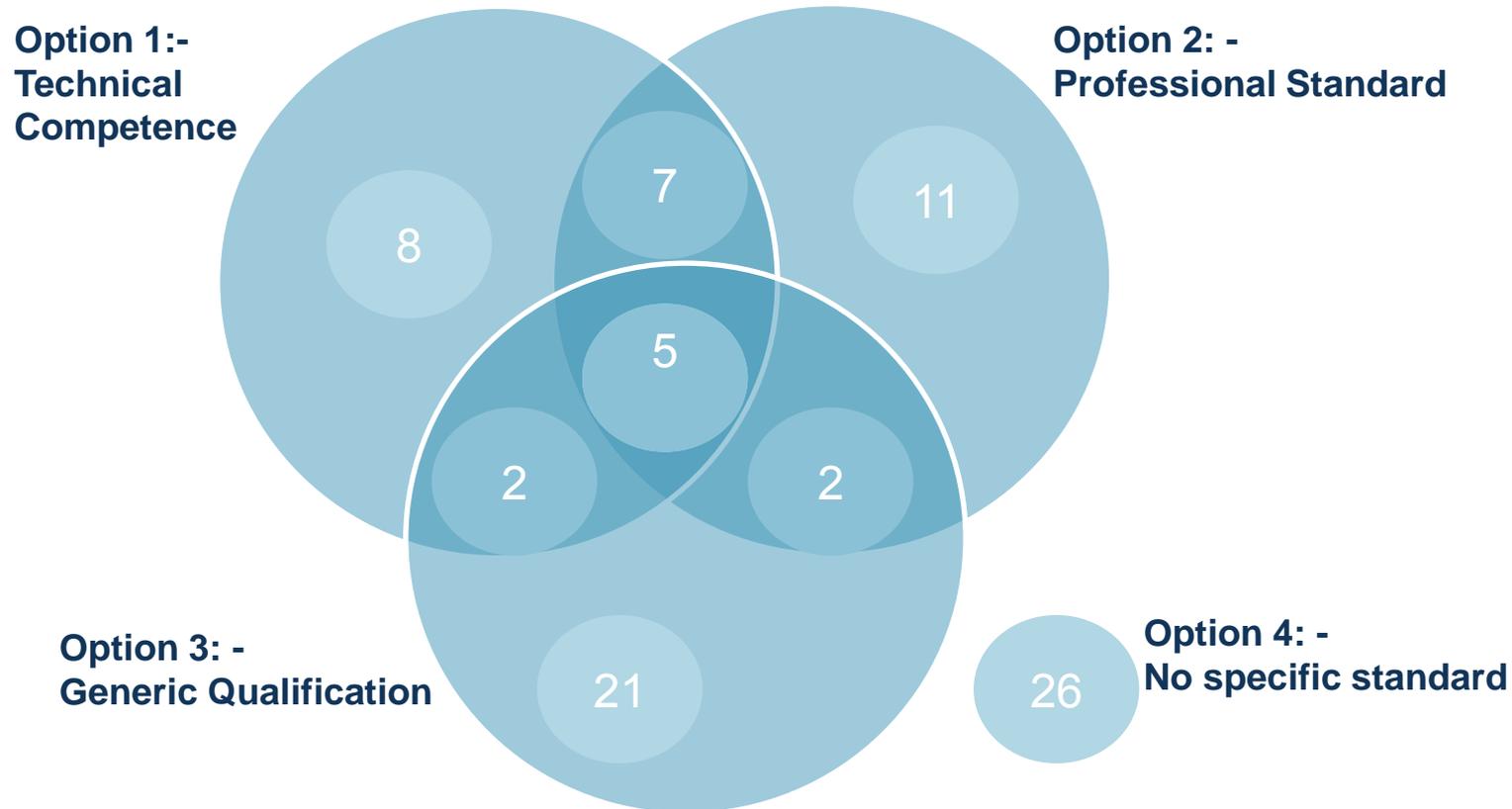


1 of 15 didn't answer question
11 of 14 in favour of option 1 or option 2



22 of 93 didn't answer question
43 of 71 in favour of option 1 or option 2

Responses to Q12 – Risk Function



35/82 i.e. 43% respondents in favour of option 1, option 2 or both

29 respondents did not answer this question

Q15 Please provide any comments to support your choices. (in relation to Q14)**Non confidential responses**

- 1 Technical standards are the responsibility of the FRC, not the IFoA. Probity is covered by regulatory codes of conduct and so may not need to be regulated by the IFoA. For the Actuarial Function holder, I think it may be appropriate to require function holders to hold a recognised actuarial qualification, but I think this should not be restricted to the IFoA. For the Risk and Internal Audit functions, I do not think that there should be a requirement to hold an actuarial qualification, as such roles will often be held by non-actuaries. With regard to CPD, I do not think there should be a requirement for more CPD hours, but I do think it would be helpful if the IFoA organised CPD which is relevant to such roles, particularly the Actuarial and Risk roles. This could include facilitating meetings of members holding such roles.
 - 2 I think that it is of value to firms to have evidence of competence of members undertaking nominated roles in the Actuarial Function and Risk Management which have the most obvious overlap to actuarial work. While members may undertake work within an Internal Audit function, it is less likely that they will be undertaking work which requires the type of in-depth technical competence that would be required to fulfil the other roles.
 - 3 Current professional requirements and the FIA qualification between them should be sufficient to ensure that a member accepting such a role is up to the job and is seen to be so. Undesirable for the IFoA to add further to already burdensome SII requirements. However it may be sensible to require additional targeted CPD for these functions as is currently the case for Practising certificates to ensure that role-holders allocate time to make sure they are up to date.
 - 4 All these roles will be approved person ones, which means the FCA will have to assess each. Each role can be performed by a non actuary, so we should not impose additional requirements and expense on our members for these roles. Whoever holds the roles should be required to keep up to date via CPD, so happy to have an additional CPD requirement.
 - 5 I think the Actuarial Function sounds like a reserved role in the same way as they exist in Life/Lloyd's and it therefore makes sense to have similar requirements. I think the option of holding this certificate should be available across all the roles described above. However I think in the case of the Risk function, which is typically a multi-disciplinary area (e.g. recent CIGI conference with three CROs - an actuary, an accountant and a solicitor) it may not be the case that the head of the risk function has the same recent background in relevant areas which would be required of a practicing certificate holder. They may have a wide-ranging career and have been brought in for that perspective, rather than because of direct involvement in the specific areas of capital, reserving etc. We should also be mindful of the requirements of other professionals in similar roles, we do not want to disadvantage actuaries in the market against other, potentially equally qualified, professionals. I would expect that holding an additional qualification would be a benefit for an actuary in a CRO position so should at least be a voluntary option. For an actuary heading up the internal audit function I am less clear and would be keen to understand the requirements for an accountant in a similar role. Again, the job may not require the direct knowledge required for a practicing certificate. I think the professional suitability standard will be difficult to implement as described in the consultation. An interview, for example, is an imperfect way of judging someone's character. I would hope that this would be covered to some extent in the PRA approval of the appointment of people to these roles, although I am not familiar with the detail of the approval process.
 - 6 It should be possible for regulators and company boards to be able to rely on fellowship of the IFoA, and the implied compliance with the Actuaries' Code and TAS's. I agree that some further specific TAS may be appropriate.
 - 7 I think there is a risk of placing Actuaries at a competitive disadvantage relative to other professions,
-

especially in the roles that are often filled by non-actuaries. I also think that the process for obtaining a practicing certificate can be cumbersome and forms a barrier to employment. The PRA also has its approvals process to follow which means it can take a long time for an organisation to get a candidate in place for these senior defined roles. Also there is a risk that the consistency across the EU is lost as UK actuaries are required to meet a higher standard than elsewhere in the EU.

- 8** Overall I would recommend as little additional regulation from the IFoA as possible. Boards, even in small entities, should have sufficient competence to judge the suitability of candidates. The regulators will also have a very strong role in reviewing candidates for roles. It would be unhelpful to have another IFoA review of potential candidates for what is already a long and involved appointment process. There may also be cases where firms choose someone with a needed set of skills but who doesn't meet a traditional appointment criteria. Firms, subject to discussions with the regulators, should be able to make these types of appointment.
- 9** FIA qualification is no evidence of technical actuarial ability or content of character and therefore I do not believe it should be used as a basic standard for defining suitability for SII roles. It merely indicates that a set of exams have been passed. My understanding and personal experience of the SII regime is that it wishes to discourage the "tick-box" approach to risk management and put a focus on critical thinking and challenging of status-quo situations. A tick-box approach to actuarial work and risk management is encouraged through the intense rote-learning that makes up the bulk of the ST and SA exam process. Actuaries in Continental Europe, where reputations are often built around higher research degrees (PhDs) in quantitative subjects rather than rote-learning for written exams, display this critical thinking. However they would be excluded from holding Solvency II roles in the UK under the "FIA with practising certificate only" options presented. I therefore believe the IFoA proposals go against the key Solvency II objective of harmonising the regulatory regime across EEA states and encouraging a holistic approach to risk management. The practice certificates and FIA status should therefore be considered optional and competency established through direct interviews with the PRA.
- 10** The additional requirements are only reasonable when there is a presumption of actuarial skills. The Actuarial Function is required to have sufficient skills and professionalism by the Directive and therefore the requirements I have "voted" for are proportionate. The Professional suitability standard is appropriate for any member performing a key function, though I warn that only a senior participation should need any requirement - a junior student might work in any area.
- 11** The Fellowship qualification and compliance with TAS standards should be sufficient to ensure competency. The Fellowship could be devalued if it were seen as not being good enough to cover Solvency II activity. Core Solvency II actuarial activity may be distributed between many people. I am unclear whether a new certificate would apply to all of these or be aimed at the actuary who compiles reports for the Board. If it is the latter, there is a risk that reporting to the Board is seen to be more important than roles which are closer to the front line. The Solvency II regulations are clear as to what activities require specialist actuarial skills. Risk Management and Internal Audit are not considered to require those skills, so the profession should not develop a solution for those functions.
- 12** I consider that placing restrictions on access to Solvency II roles will hinder members of the institute in their career development and flexibility. This particularly applies to me as a "jack of all trades". At the moment I am seeking to develop the roles and practices of Solvency II function holders (with outside assistance on the actuarial side) with a view to others (not actuaries) continuing with the role.
- 13** Best approach would be to create 10 or more Model Offices and show how the requirements of Solvency II can be complied with. In the initial stages, plenty of illustrative literature may be distributed to the intending practitioners. Later on, we can consider the various options listed.
- 14** May be difficult to mandate requirements in roles which may also be filled by non-actuaries. In non-

traditional roles, may also be a need for different types of CPD.

- 15** I think it is appropriate that the IFoA assesses the suitability of actuaries to take on the Actuarial Function Role. I also think there would be an expectation that this would be covered by the IFoA. It would then be up to a firm to decide if it wished to use a non actuary in the role instead. For the other roles, there is a wide range of individuals of different backgrounds that firms could choose for those roles and therefore it does not feel appropriate to impose additional hurdles on actuaries who wish to apply for those roles and that their firm and the regulators deem them to be suitable for.
- 16** I think practising certificates are an excellent support basis for organisations to know the appropriateness of function holders. A voluntary basis is too weak in my view.
- 17** On question 14 I do not consider that these roles are special in a way that other actuarial roles are not. All actuarial roles require CPD (although for students study is more appropriate than CPD) and all users of actuaries are entitled to assume that their actuaries are properly qualified in this as in every other regard. If the present amount of CPD requirement is not sufficient for those working in Solvency II roles then it is not sufficient for those working on other roles. In respect to question 12 I consider that the requirements of the actuarial function under the Solvency II directive are of a nature that requires the setting up of a separate cadre of actuaries who are entitled to perform them. There is no requirement for an opinion in the sense of a binary approved or rejected type that we are used to at Lloyd's that is a prerequisite for an insurer continuing to operate. The Actuaries' Code requires that we should not do work for which we are not appropriately qualified (by experience and expertise as much as exams). Anyone with a senior role in the actuarial function's activities in the United Kingdom will have to be approved by the PRA and the FCA. This is sufficient. I have noted the paper's contention that it is "difficult for non-actuaries, particularly in smaller organisations, to assess the technical competence of candidates for controlled roles in actuarial matters". I consider that this difficulty is exaggerated and not unique to actuarial roles; those appointing staff or consultants to important roles are used to this and have various means to make informed decisions. In any case, once a person is appointed this argument would evaporate as he or she continued in the role in subsequent years but would, presumably, have to keep applying (and paying) for the renewal of a practising certificate. Also, there is no requirement in the Directive that the Actuarial function be a single, identifiable person; although a single senior person will almost certainly take overall responsibility, for each part if not for the whole, it is likely to be a team effort in all but the smallest firms. In view of my answer to question 12 I consider that introducing such a regime would be an unfortunate mistake. My answer to question 13 therefore is inevitable, since it would mitigate the mistake. I have less confidence in my answers in respect of internal audit since I am less familiar with this area.
- 18** The requirements should be proportionate e.g. for small non-life companies.
- 19** As the roles will no longer be "reserved" roles, i.e. ones where specific membership of a professional body (here the IFoA) is required by statute or regulation, I do not see how in Q12 it would be reasonable to require IFoA members wishing to undertake these roles to have specific (additional) qualifications. This rules out the first two options of Q12 and perhaps also Option 3. Additional CPD may be desirable but likewise to require it seems unreasonable in Q14. To put it another way, what defence would the IFoA offer if it introduced relatively restrictive mandatory qualification requirements and individual members then sued it for being anti-competitive or sought to form (or join) an alternative actuarial body that didn't impose such requirements? The issue here is that legislators appear as part of Solvency II to be altering the balance between professional membership requirements and competition principles that previously applied in the UK. Whatever our views about the intrinsic merits of different approaches, there may be legal constraints on what the IFoA can or cannot do once Solvency II comes into force.
- 20** Option 2 is, to my mind, completely inappropriate. Companies have to fulfil fit and proper responsibilities in respect of their key function holders, and this proposal overlaps with those corporate responsibilities to

an unreasonable extent. With regard to Option 1, most companies are perfectly capable of assessing whether a key function holder has the necessary technical competence so, if a practising certificate is introduced it must be voluntary. With regard to option 3, the actuarial profession really has no mandate for specifying standards for risk management and internal audit roles.

- 21** I think the risk of requiring too many additional requirements would as the paper says put the IFoA candidates at a disadvantage to candidates from other designations/ professions. I feel the requirement to achieve a practicing certificate with some additional CPD will fulfil the requirements of having a suitable actuary involved while meeting the public need. If we don't think our current CPD/ practicing certificate regime is good enough to fulfil requirements now we should be thinking of changing the whole CPD requirement as opposed to that specifically for Solvency II.
- 22** I don't see the value of a professional suitability test along the lines described - it would add nothing to the checks that insurance firms and the regulator would both carry out. A generic qualification might become appropriate when the SII regime and its consequences for the actuarial population are stable, but at outset of SII it would add no value in the life sector and would be counterproductive in the non-life sector.
- 23** Outside the Actuarial Function the roles may be filled by a range of professionals and it would be unduly restrictive to require additional requirements on those who just happen to be actuaries.
- 24** I think that a compulsory standard would allow other professionals to undercut actuaries with lower costs - I have already had discussions with 2 health insurers who are thinking about making their underwriter or compliance manager or a junior in the finance team their actuarial function as it is a role that they do not want to spend money on. We need to show our ability to do the role and that means a competence standard. I suspect the standard around fit and proper will be dealt with adequately by PRA. Overall, I think the same level of standards should apply to all roles. I think the profession giving a voluntary sign off will help market people with the right technical skills for the right role. I also think that, ultimately, the voluntary sign off will become compulsory by the action of the market - why should we get you to do this if you do not have this sign off. The hardest bit will be to set up the technical standard and check how people meet it and continue to meet it. Do we have testing after CPD? Do we have some form of continuous examination process? What standard should be set? Where do we get the resources from to do this?
- 25** Confirming that staff are fit and proper is a burden placed firmly on the (re)insurers and their Boards. Adding significant process and expense to that already carried by firms and the PRA would be both duplicative and put Fellows at a disadvantage - particularly in the non-traditional areas of risk management and internal audit. Firms and the PRA carry out checks and interviews to assess appropriateness for role holders and, in my experience, the actuarial qualification is not relied upon and may sometimes be seen as a negative feature (as it is taken to mean that an individual has quantitative skills only). This would be compounded by additional hurdles and administration to approve someone into a role. It is also important to note that Solvency II does not require a single function holder and so defining who needs to hold the certificate could also be problematic.
- 26** Whilst the Solvency II directive is a step-change in the manner in which firms are prudently managed, it should not be handled more onerously than other areas where the 'fit and proper' requirement is needed.
- 27** It is the responsibility of the individual, the firm and the regulator to ensure that an individual meets any statutory requirements. The Solvency II directive, or any of the related texts, makes no requirement for an Actuary to hold a specific function. It would be wrong for the UK profession to create a higher bar for an individual just because they are a member of the Institute and Faculty, unless a regulator requires it. UK actuaries are required to undertake professional skills training as well as other CPD on a regular basis; this should be enough to meet the requirements. There should be absolutely no requirement for an actuary to do anything special to hold a risk management function or internal audit function role that is

more onerous than other professions. This would create a significant restraint of trade issue.

- 28 Fellows should be "proper", so prof suitability is implied by having generic qualification. Solvency II may require additional expertise so CPD for practicing certificate should be adequate.
- 29 Actuarial Function & Risk Management functions continuously evolving. New standards and practices emerging all the time. CPD required to evaluate whether these are appropriate for use in the firm. Same cannot be said for IA.
- 30 Mandatory CPD is a good way to enforce standards on non-IFoA position holders.
- 31 It is important for the various functions holders to demonstrate the necessary technical skills, in particular for the actuarial function and risk management which require a high level of technical knowledge. I preferred this option to a practicing certificate, which would be unpopular with some members who haven't taken the Practice Module or would find it the time required to obtain the certificate disproportionate. A technical competency standard could be achieved by a specific certificate for solvency II which is tailored to its requirements rather than a more generic qualification which may not cover any of the key areas legislation requires.
- 32 Coming from a smaller organisation, I find the arguments for a technical standard difficult to accept. My comments on Internal Audit are in the context of a firm using an external actuarial function which has a strong peer review culture. I feel our internal auditors need no actuarial expertise and can rely on auditing process (including reliance on the work of the reviewing actuary).
- 33 The current PC regime encompasses all 3 options for the AF role, and these all remain appropriate for the role under SII. The AF role requires a full and deep understanding of actuarial concepts, best demonstrated by qualifying as a Fellow of the IFoA. The IFoA should only undertake to certify the technical and professional competency of its own members, not take responsibility for the standards of non-members. The Risk Management and Internal Audit roles are able to be filled by a range of professionals. The IFoA should not impose additional requirements on its members which may prevent them from competing on a level playing field with non-actuaries for such positions.
- 34 The current practising certificate regime seems to work well and we recommend adapting it for the S2 world. The criteria should continue to be relevant experience and professional integrity, i.e. a combination of Options 1 and 2. The profession would in this way ensure that one of its members could undertake the AF or RM role only if he or she is suitable for it. We should not extend this to the Internal Audit function because it is a field in which the Actuarial Profession has no especial expertise with which to assess suitability.

35 Actuarial Function

Whilst none of the functions are required to be undertaken by an actuary, the actuarial function is required to have knowledge of actuarial and financial mathematics and is therefore likely to be undertaken by a member of the IFoA. It therefore seems reasonable that formal assessment of the ability of members to undertake this role would be beneficial and that demonstrating this via a Practising Certificate be made compulsory.

The need to keep up to date with current actuarial matters is particularly relevant to the Actuarial Function so additional CPD, compared to other members of the IFoA seems sensible, provided that the amount is reasonable and achievable.

We believe the current practising certificate regime in place for life roles generally works well. We think that a similar regime should also be introduced for general insurance roles so that a consistent approach is followed.

Risk Management Function

Members of the IFoA are also likely to hold the risk management function, given the strong grounding in insurance risk management that is derived from exams and general experience, although it is also likely that other professionals may hold this role.

We think it could be helpful for the IFoA to allow members to apply for a Practising Certificate to demonstrate that they have been given the IFoA's stamp of approval that they are suitable candidates. However, it is particularly important, given the competition outside the IFoA for Risk Management Function roles, that the regime would not disadvantage IFoA members and result in them losing out on roles to other professionals. As such the criteria should be carefully considered so that those with sufficient experience and expertise will be awarded a Practising Certificate, whilst being mindful of the fact that it may take some time to establish the key criteria that are necessary to demonstrate this under the new regime.

By making the regime voluntary this will allow the market to decide whether it values approval from the IFoA in respect of those applying for the Risk Management Function. We think that the IFoA could revisit this decision in 3-5 years' time and consider whether it may wish to make the regime compulsory.

The CPD that is relevant to the Risk Management Function could span a wider range than solely "actuarial" topics and, whilst it is important that those holding such a function keep abreast of these, it is not the IFoA's responsibility to monitor this on an ongoing basis.

Technical criteria and professional suitability for AF and RMF

In the case of both the Actuarial Function and Risk Management Function, specifying the minimum technical criteria should ensure that individuals that meet these are sufficiently equipped to undertake the roles. The technical criteria should reflect the expertise and knowledge required for the different roles but should also not be so stringent as to place unnecessary restrictions on IFoA members relative to other professionals that may seek to hold such roles.

An assessment of professional suitability could take the form of a questionnaire, asking individuals to declare any offences, disciplinary cases, etc. This should give the added confidence that aside from being technically competent the individual is of good character.

Internal Audit Function

The internal audit function is likely to be held by a greater range of professionals and therefore it is less appropriate for the IFoA to determine the suitability of an IFoA member for this role.

- 36** 12. Although there is no formal requirement for those in controlled roles within the Actuarial Function to be actuaries, we consider it important that appropriate provisions are in place if an actuary is to carry out such a role. This includes an assessment of both the technical competency and the professionalism of the actuary.

The current Practising Certificate structure provides an appropriate route to ensuring these standards are being met sufficiently. The experience to date in the life insurance, general insurance and pensions industries demonstrates that certificates can be useful tools for individuals, firms and professional bodies.

We would deem it incongruous for an actuary to take a leading role within the Actuarial Function were they not to have already qualified as a Fellow of the IFoA (or hold an equivalent qualification in another country). The requirement for fellowship would also ensure that consistency with the current Actuarial Function Holder role within Life Insurance firms is maintained, where qualified status is also required.

Given that a significant proportion of senior roles within the Risk Management and Internal Audit functions

may not be taken on by actuaries, we do not consider that it is appropriate for the actuarial profession to mandate or propose formal technical and professional standards for these roles even if performed by actuaries. Requiring actuaries to hold a Practising Certificate could also discourage members of the actuarial profession to apply for controlled roles, thereby reducing the pool of actuaries applying for high profile positions. This could place the actuarial profession at a disadvantage relative to other professions where no such Practising Certificate requirements are in place.

With the involvement of actuaries within the Risk Management Function currently increasing, it would be advisable to revisit and validate the non-requirement of a Practising Certificate at regular intervals in the coming years for this function.

13. If a Practising Certificate is to be issued for the controlled role within the Actuarial Function, to ensure consistency we believe that it ought to take the form of a requirement rather than a voluntary measure. A voluntary format may provide opportunities for individuals or companies to dismiss the criteria being requested within the Practising Certificate, which would be of no benefit to individuals, firms and ultimately policyholders.

14. On the topic of CPD, we believe that a requirement of 15 hours remains sufficient, assuming that a material element of this time is spent focussing on the relevant areas of development which directly relate to the controlled role being held. The day to day role would also provide an excellent source of on-the-job learning which would supplement the CPD accrued.

On a separate note, discussions within our department highlighted that the process of logging CPD on the online system can be troublesome and could be made more user-friendly and less time-consuming.

37 The profession already sets standards around professionalism etc. which its members are required to adhere to. In particular, the actuaries' code contains the requirement:

2.2 Members will not act unless:

- a) they have an appropriate level of relevant knowledge and skill; or
- b) they are acting on the advice of an individual who has the appropriate level of relevant knowledge and skill and all interested parties are aware that this is the case; or
- c) they are acting under the direct supervision of another member who is taking professional responsibility for that work.

It may of course be argued that in certain cases there could be a mismatch between what an individual feels they are competent to do vs. what an independent view of that person may conclude, especially if the level of knowledge and skill is felt to be very close to that required (as opposed to far above or below).

The PRA will in many cases require the actuarial function holder to be an approved person and hence they will need to meet the requirements of the regulator to become and maintain this status. The proposals suggested by the profession (option 1 and 2) would therefore in practice not add anything in these cases.

It therefore seems that there is no additional role that the profession need take other than to continue to promote the professional standards and associated requirements of being a member of the profession. However if it was felt that there is a need to be seen to be doing something in order to clearly demonstrate the public interest agenda (and address the potential for a shortfall in an individual's own assessment under the actuaries code), we would recommend option 1. Furthermore we would see this as needing to be mandatory as opposed to voluntary.

- 38** We are surprised that the IFoA has not provided more substance to its options or indicated its preference. Whilst we support higher standards across all professionals involved in Solvency II, the actuarial costs are already significant, and it would have been very valuable to see a fuller assessment of costs and benefits. Without this we have made a best estimate, and comments based on a proportionate approach.

Q21 If practising certificates are used to support Solvency II roles, what improvements might be made to the existing regime to facilitate this? Please state the area(s) in which you think the practising certificate regime could be improved.

Non confidential responses

- 1 Existing regime should be suitable.
- 2 As I haven't used the regime for many years, no comment.
- 3 I think the profession should consider the value of a periodic requirement for an exam such as the practice module, as part of the CPD requirement of certificate holders. The current regime assumes familiarity with the latest regulations. I expect this is very likely to be true and a requirement for the day-to-day challenges of their job, but this is one way that we could demonstrate up-to-date knowledge. I'm not keen on advocating exams as the answer to this particular problem, just suggesting considering it as a small component of a package of demonstrating outwardly why others should have confidence in actuarial professionals.
- 4 I have no experience of the existing regime so cannot really comment on potential improvements.
- 5 Better CPD training for Fellows.
- 6 I don't have direct experience in this regard.
- 7 Focus on the content of character and experience of the individual and less on the requirement for any specific designation obtained by rote-learning.
- 8 Reform the life certificate to remove With Profits but have a new certificate for a With Profits Actuary (as proposed elsewhere).
- 9 Please do not add any more regulation.
- 10 I have no knowledge of practising certificates. I have had to develop procedures for my firm to handle all aspects of Solvency II. I have analysed the various EIOPA guidelines, benchmarked and upgraded my firm's procedures and documentation, and sought to establish a workable framework. The skills involved are a methodical work, pragmatic application, communication, judging what is disproportionate, creating documentation, deciding when you need help, and an excellent understanding of the organisation. This is really down to experience rather than a qualification.
- 11 CPD requirements to be based on literature distributed. This is particularly necessary in General Insurance.
- 12 No comment. As above, I consider that the current PC regime would be an excessive imposition in this area.
- 13 Less emphasis on prior experience in order to enable actuaries more easily to move into the newer roles.
- 14 Less on box filling and more on quality of work undertaken. There is limited space at present to set down what type of work was undertaken. Also, I think if a technical competency is given, you will need to test CPD to prove compliance. This will take the form of multiple choice questions set on required CPD courses for the role or on CPD that qualifies for the role - sessional paper of relevance for example.
- 15 Need to extent technical competencies as necessary and to have a specific PC for non-life actuaries.

Must be capable of applying to firms in different EU territories, not just UK. Need to have separate certificate for With Profits Actuaries which reflects the statutory requirements of the role to advise the board on the exercise of discretion.

- 16** I am not a practising certificate holder, so cannot comment on this question.
- 17** Cera
- 18** Restrict based on product coverage: currently we separate WP from non-WP because of the additional complexities associated therewith. The same principle should apply to unit-linked business and possibly other areas. General insurance behaviour for household contents vs marine hull are very different and the PC should reflect this also.
- 19** mandatory CPD.
- 20** The Practice Module should be revised - the content can be quite poor quality (in particular questions on GI are very subjective and so more a test of memory than practical knowledge) and would not stand up well to a higher level of scrutiny.
- 21** I would consider the current requirements to be about right, and would favour one certificate facilitating any of these roles we seek to regulate. (As like now we do not distinguish between reviewing actuary and AFH). We should relax monitoring requirements for risk/audit (compared to actuarial) - at least in the early years.
- 22** Currently a lot of emphasis is placed on the experience in the last 12 months and only experience up to 4 years prior to application is considered. However, individuals that may have relevant experience, and may even have held a Practising Certificate, from over four years ago but who have gone on to do other things in between may not be eligible to apply for a Practising Certificate. This is despite still having the technical expertise and keeping abreast of relevant developments since then. We think this should be considered in applications.

Q22 Do you have any other comments which you would like us to take into account in this consultation?

Non confidential responses

- 1 If any regulation of actuarial roles is believed to be necessary, I think this should be developed at a European level to ensure consistency across Europe and avoid conflicts between different regimes. This suggests that this is a topic which should be considered by the Actuarial Association of Europe. If this is not done on a consistent basis, IFoA fellows carrying out the actuarial function role in non-UK countries (such as myself) could find they are subject to multiple requirements.
- 2 Regulators will be responsible for ensuring role-holders pass fit and proper tests; I do not feel that the IoFA should be adding to the burden of red-tape for members unless a problem is found in practice.
- 3 Placing additional requirements and conditions on actuaries holding these defined roles puts us at a disadvantage compared to non actuaries. The Actuaries' Code applies to whatever we do and should be an adequate and sufficient way by which outsiders can see the standards to which we act.
- 4 Overall I wouldn't be in favour of extending practicing certificated regime.
- 5 Please do not add any more regulation.
- 6 Solvency II can be effectively learnt through Model Office approach.
- 7 In reference to question 20. I do think that Fellowship is highly desirable in carrying out these tasks; some Associates might be appropriate. I note that in the case of Lloyd's signing actuaries are required to have PCs; this would not be required for Solvency II. Therefore actuaries with non-UK qualifications would not be prevented from doing these tasks if they could not get certificates. I would restrict it to FIAs, FFAs and affiliates who are fellows of other bodies. I do not think that the Institute and Faculty should be certifying people who are not its members. As a general comment, I do not agree with paragraph 1.6 of the paper. There is no overriding need to move on this question and the Institute and Faculty could well decide to do so only if it became apparent that in the event it was necessary to do so. There is a presumption in law that legislation is designed to correct a mischief and the courts can use the mischief to interpret the law. No mischief has been identified that would justify legislating in the way envisaged. The Institute and Faculty should not be so anxious to gold-plate the legal requirement.
- 8 The consultation does not take account of the needs of UK actuaries performing the actuarial function role in other EU countries where they will be competing with non-UK actuaries.
- 9 The onus is on a firm's board to ensure that key function holders are fit and proper. This responsibility cannot be delegated to a third party. To the extent that the profession does introduce requirements in this area, they should be aimed at supporting boards in coming to a fit and proper conclusion without disadvantaging actuaries in fulfilling the relevant roles.
- 10 (1) The consultation paper seems to equate "function" with "role" as a one-to-one correspondence. This is unlikely to be right in practice. In SII a function is an "administrative capacity" to perform certain tasks, and it need not report into a single role. It is likely that in many firms the actuarial function will not fall under a single head. All the proposals need to be flexible enough to cope with multiple heads of (parts of) a function. (2) The CP seems to accept there is a "through train" from the existing PRA-controlled actuarial function to the SII actuarial function. This is inherently unlikely to be right. The former relates to a particular set of UK life actuarial duties, whilst the latter relates to a different set of actuarial duties across life and non-life in 31 countries. (3) If the proposals are Europe wide rather than just UK then it is vital that they are voluntary, unless they are adopted consistently by all European actuarial associations. If the

IFoA goes along with Europe-wide requirements it will make IFoA members less useful outside the UK.

- 11 We should make sure we can accept EU applicants.
- 12 Actuaries of other countries can qualify for a PC by obtaining FIA under reciprocal arrangements or possibly by becoming affiliates.
- 13 Companies are likely to perform their own checks to get the comfort required, independent of the IFoA - so having any options as voluntary will allow candidates for the roles to demonstrate a competitive advantage (i.e. there may be better and more meaningful compliance via a voluntary regime). However, I am of the opinion that the existing professional obligations should be sufficient for a Solvency II framework, as well, and no additional intervention should be pursued.
- 14 Q20 - would extend to members who are fellows of other actuarial bodies in Europe or where mutual recognition exists.
- 15 There is a danger of applying a disproportionate regime to smaller firms and/or being seen to impose unreasonable expense on them. Many kindred societies' CEOs act as CRO, and will not be subject to professional standards. I consider that I am more suited to the role than the CII colleague who previously undertook it, but would consider reverting if the IFoA put in unreasonable barriers. None of which means I do not recognise that I am perceived as an actuary, have to act professionally and remain subject to discipline if I fail to do so.
- 16 The value of any practising certificate is based on the standards against which applications are judged and the consistency of the application of such standards. Confidence in any scheme would be enhanced if the PCC reported regularly on the scrutiny given to applications, including numbers of applications declined or further information sought, with broad descriptions of reasons for such decisions.
- 17 Re Q20, it is not for the Profession to vouch for the suitability of anyone who is not a member of it. There may well be non-actuaries who are suitable (especially for the Risk Management and Audit roles) but firms should assess that for themselves. We do not think that a Practising Cert should be represented as confirming 'competence'. We can assess someone's experience and professional background but can we really assess competence?
- 18 If a practising certificate regime were to be introduced for one or more of the Solvency II roles then the aim of this should be to assist Boards and regulators in selecting a suitably equipped individual to undertake such a role. This would be achieved by providing comfort that, where an IFoA member is applying for a specified role, they meet the minimum standards deemed necessary and are of appropriate character for the role. It is expected that this information would supplement checks also undertaken by the Board and the regulators; it is not expected to be the only source of confirmation that an individual is suitable for a particular role.

Underlying the practising certificate regime would be the requirement that applicants comply with the professional obligations currently in place, e.g. the Actuaries' Code, relevant APSs and the TASs. These would not be relevant for non-actuaries, hence the decision not to allow them to apply for a practising certificate.

- 19 On Q20, it appears to be beneficial to companies (and ultimately policyholders) if experienced actuaries who qualified in a country outside the UK are also able to apply for a Practising Certificate and subsequently take on a controlled role within the Actuarial Function.

We deem it important that any Practising Certificate required for Solvency II controlled roles should adequately cover both life and general insurance business.

- 20** Any requirement should be imposed equally on actuaries working with firms and actuaries working for supervisors (e.g. PRA).
- 21** This questionnaire is not particularly user-friendly, and has not made it very easy to elicit comments from members and refresh our response to reflect them. Focus appears to be on X-factor voting more than effective dialogue about the issues.

3. LIST OF RESPONDENTS TO OUR CONSULTATION

Non-confidential responses to the Solvency II consultation were received from the following:

INDIVIDUAL RESPONDENTS

Stephen Ainsworth	Stephen William Dixon	N K Parik
Chris Barnard	Brian Gedalla	Michael Poulding
Stuart Bell	David Hare	Budhiraj Singh
Raymond Bennett	Peter Johnstone	John Smith
Peter Carswell	Richard Hunt	Annie Tay
Andrew Chamberlain	Mike Kipling	Ed Tredger
Seamus Creedon	Colin Ledlie	Duncan Walsh
James Crispin	Julian Leigh	Brian Weatherill
Roger Dix	Jon Neale	

FIRMS/ORGANISATIONS

Allianz Insurance plc
Antares Managing Agent Ltd
Association of Financial Mutuals
Equitable Life Assurance Society
PwC
Standard Life