



The Actuarial Profession

making financial sense of the future

Report on consultation responses: Practising certificate regime proposals

Professional Regulation Executive Committee

1. Introduction

As chairman of the Professional Regulation Executive Committee of the Actuarial Profession (PREC), I am writing to report to you on the recent consultation on the proposed changes to the practising certificate (PC) regime.

This is one of the areas that PREC has been examining, with the input of the Professional Oversight Board of the Financial Reporting Council (FRC), as part of the PREC's responsibility for ensuring, on behalf of the Profession, the effective regulation of the Profession's members.

PREC established the Practising Certificate Regime Working Party (the Working Party) to review the current regime of practising certificates for reserved roles. The Working Party had regard to the four drivers of actuarial quality set out within the FRC's Actuarial Quality Framework¹ when forming their recommendations. The question of extending the regime beyond those actuaries currently required to hold certificates is now being considered by the Working Party under Phase II of the review.

The recommendations of the Working Party were published in October 2010 and a consultation period on the proposed changes to the current regime extended to the end of the year. We are extremely grateful for the time and attention given by respondents in preparing their contributions.

The data gathered from the consultation is set out within a report included as Appendix A to this paper. As Appendix A shows, respondents to the consultation were supportive of the substantive recommendations of the Working Party.

As set out within the consultation paper, the Working Party was careful to ensure that members will have sufficient notice to prepare for the introduction of any new requirements. In keeping with the transitional arrangements confirmed within the consultation paper, going forward:

- recommendations of the Working Party which relate to the experience requirements for initial applicants will not be introduced until 25 January 2012, i.e. the new requirements will apply to all new applications with an effective date from 25 January 2012; and
- mentored certificates will continue to be issued up to and including 31 December 2011. Certificates in existence at that date will continue to be subject to the mentoring process until the actuary meets the relevant requirements under the new arrangements.

The Profession is grateful for the additional comments submitted by respondents which have highlighted a need to clarify some of the proposals made. The comments received have informed the preparation of section 4 of this paper which sets out some of the themes which emerged from the consultation process and seeks to provide clarity and justifications for the proposals, where necessary.

I hope you will find this feedback both useful and informative.

Sir Philip Mawer
Chairman of PREC

¹<http://www.frc.org.uk/pob/actuaries/drivers.cfm>

2. Review of current regime

The Profession's practising certificate regime has developed incrementally over the last 21 years whilst, at the same time, the standards expected of a self-governing profession by the public, government and regulators have become higher. For that reason, a review of the way in which the Actuarial Profession's regime operates against current external expectations was appropriate and timely.

In conducting its review, the Working Party identified the following principles which it considers underpin the areas of the current regime where improvements are required:

- Quality of experience is more important than quantity;
- Currency of practical experience and technical knowledge is important;
- Factors such as working environment and professionalism are as important as technical skills;
- Statements made during the application process must be subject to verification; and
- Governance of the scheme administration must be overtly fair and transparent.

The threads of these principles can be seen running through the recommendations of the Working Party. Taking each in turn:

- 1) Quality of experience gained by an applicant is more important than the quantity:

The Working Party considers that experience gained as a Fellow of the Profession is materially different from that gained as an Associate or Student: As a Fellow the individual is fully responsible professionally for advice they tender (even if only provided to a more senior actuary within the same organisation). It is for that reason that the Working Party recommends that only experience gained as a Fellow should count towards the requirement for an initial grant of a practising certificate (PC).

The Working Party also considers that the current mentoring scheme for PC holders is incompatible with the concept that a PC indicates an actuary's ability to provide a certain type of advice. Therefore it recommend that the mentoring option, currently used within the field of pensions, be withdrawn.

- 2) Currency of practical experience and technical knowledge is important:

The Working Party considers it important that initial and renewal applicants can demonstrate recent experience as it is critical that PC holders' knowledge is up to date. It therefore proposes that at least 3 years' relevant experience be gained in the last 4 years and, more importantly, that at least some experience be gained within the last 12 months.

- 3) Factors such as working environment and professionalism are as important as technical skills:

The Working Party is eager to see a greater emphasis on professionalism (including robustness and communication skills), not just on technical skills. To this end, it makes the recommendation that all initial applicants are 'sponsored' by an existing PC holder who is prepared to state that the applicant is suited to hold a PC from both a technical and a professional point of view.

The Working Party is also keen to ensure that PC holders not only have the capability to perform work of a certain type at a certain level but that they also have the capacity to do so. For that reason, it has proposed that applicants must certify that they will have the time and resources to carry out the work they take on.

4) Statements made during the application process must be subject to verification:

The Working Party considered that it would unacceptable to the public if it emerged during the investigation of a complaint against one of the Profession's members that the member in question had made an incorrect declaration within their PC application form which was not picked up because the Profession has no verification mechanism in place.

This is of particular concern with regard to the fitness and propriety of practising certificate holders. It is for that reason that the Working Party recommend that criminal record and credit checks are carried out on 100% of all initial applicants, whilst periodic checks should be carried out on PC holders thereafter.

The Working Party recognised that it would be difficult to verify the statements of relevant experience for initial applicants. The Working Party has introduced the sponsor sign-off for initial applicants in order to provide this verification.

5) Governance of the scheme administration must be overtly fair and transparent:

In the modern world, those who are subject to any form of regulation are entitled to have confidence that it is operated objectively. Access to information is key to achieving this. Therefore the Working Party has recommended the transparency of criteria for the granting or withholding of certificates and that there should be lay oversight of the assessment process.

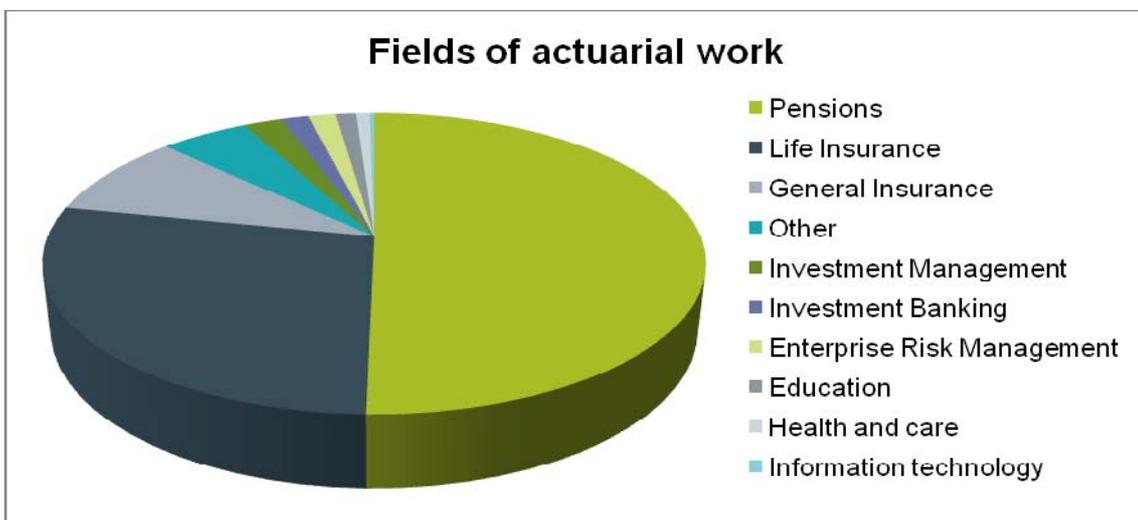
3. The consultation responses

The consultation period ended on 31 December 2010 and generated one of the highest response rates of any consultation conducted by the Profession.

In total, 945 people accessed the on-line version of the questionnaire and 18 written submissions were received. 712 of those individuals who accessed the questionnaire online answered it in full. All of the key questions (i.e. the questions inviting views on the recommendations of the Working Party) were answered by between 534 and 730 respondents.

The overwhelming majority of respondents were actuaries (93.8% or 748 respondents) or student actuaries, with only 24 responses from others.

Respondents confirmed their fields of actuarial work as follows:



This split is broadly reflective of the make-up of the Profession, with the exception of the Pensions sector. Members employed within the Pensions sector represent approximately 30% of the total Profession, whilst those members were responsible for over 50% of the total number of consultation responses submitted.

46% of those individuals who responded confirmed that they do currently hold a practising certificate. Of those who do not hold certificates, 40% (165 respondents) confirmed that they consider that they will apply for a practising certificate in the future.

4. Themes arising from consultation feedback

The following issues and concerns were identified from the responses received as areas which would benefit from clarification.

1. Some respondents voiced concerns that the proposed requirement that a PC holder confirms each new applicant's claims to experience and general suitability to hold a certificate will, in effect, be a barrier to application for those working within small firms or sole practitioners.

The Working Party believes that this requirement will help to demonstrate to the Profession that the applicant has the support of at least another PC holder who considers the applicant understands the nature and challenges of the role in question. The Profession has already satisfied itself that the vouching PC holder meets the criteria for holding a certificate and it is therefore appropriate to rely on their judgement in that regard.

The Working Party does not ask that the vouching PC holder works on a day-to-day basis with the applicant, nor that he or she accepts responsibility for that actuary's work going forward, rather that the PC holder is satisfied, or has taken reasonable steps to satisfy themselves that, the applicant has:

- i) The technical experience necessary to carry out the reserved work for which the certificate is required;
- ii) The ethical backbone to behave professionally, exercise sound judgement and meet regulatory requirements when faced with those pressures which may arise in executing the reserved work for which the certificate is required; and
- iii) The character and professional experience to make them a fit, proper and suitable person to hold a practising certificate.

The Working Party considers that all prospective PC holders, as a matter of professional practice and in the public interest, ought to have an ongoing relationship with a community of their peers. Working within a small firm or as a sole practitioner should not be a bar to obtaining a PC given that prospective applicants usually work alongside PC holders in the period leading up to applying for a certificate. The Working Party does not propose that the declarations are required on renewal of certificates.

The main circumstance in which a prospective applicant may be adversely impacted by this recommendation is where the PC holder alongside whom the applicant most closely works becomes unexpectedly unavailable before the PC application is made. In such circumstances, the Working Party consider that it would be in the public interest to require the applicant to wait until another PC holder can become satisfied that the applicant meets the criteria. Potential adverse business consequences of this situation arising could usefully be addressed in advance through contingency planning.

2. Some respondents expressed reservations about section ii) of the draft declaration, in particular how to go about making a judgement of the applicant's "self assurance" and "influencing skills".

The Profession expects PC holders to have the skills and confidence necessary to exercise their judgement impartially and to communicate their recommendations effectively to clients and third parties. The Working Party considers this to be generally the same skill and confidence level which a firm would expect of an actuary with authority to sign off client or board reports or which a sole practitioner would expect of themselves.

If a PC holder considers that they do not have the necessary skills to assess whether an applicant satisfies the criteria, then that PC holder might find it helpful to plan to include some relevant professionalism training within their CPD programme.

If a PC holder has concerns that they do not have the requisite knowledge to verify an applicant's experience and suitability, they ought to make enquiries until they are satisfied.

PC holders are not responsible for the future actions of anyone they 'sponsor'. However, PC holders who are asked to verify applications may wish to maintain a record or audit trail which evidences the reasoning employed. This is because a PC holder considered to have verified applications in a reckless fashion may be referred under the Profession's Disciplinary Scheme.

The Working Party considers that a PC holder 'sponsoring' a new applicant would be doing so in a personal capacity and not on behalf of the PC holder's firm.

- 3. Some respondents considered that experience gained by actuaries before they qualify as a Fellow of the Profession can be just as relevant as experience gained post-qualification. They thought this recommendation presents an unnecessary barrier to obtaining a PC and that it will ultimately delay career advancement for new members of the Profession.**

One of the principles adopted by the Profession in conducting its review of the current PC regime was that it must be the quality of experience held by applicants and not the quantity which is of the utmost importance.

It is recognised that experience gained as a student would normally be supervised by experienced colleagues. In such circumstances, the student is given a level of support and their work is subject to a degree of scrutiny which does not exist after qualification as a Fellow. The Working Party has therefore proposed that all experience relied upon by those vouching for PC applicants ought to have been gained post qualification.

Any delay in the member's career progression must be secondary to the protection of the public interest.

- 4. The recommendation that initial applicants are required to fulfil the category 1 CPD requirements in the 12 months preceding their PC application was objected to by some respondents. Those respondents highlighted that, in some circumstances, it will not be possible for applicants to foresee the need for a certificate.**

As PC holders, actuaries are required to comply with the Category 1 CPD requirements and, therefore, the Profession consider it appropriate that applicants are able to meet that requirement from their first day as a practising certificate holder.

The Working Party envisages that this proposal will result in the need for firms to revisit their succession planning and for actuaries to build the CPD requirements into career progression planning. In cases where it is not possible to foresee a need for another PC holder within a business, it should be possible to recruit specifically for a PC holder or to engage a contractor to carry out the reserved work for a temporary period.

Whilst the Profession recognises that implementation of this proposal may prove problematic for some members who wish to apply for a PC and are returning to work following maternity leave, a career break or a period of long term absence, it considers that the need to maintain the standards of the Profession and safeguard the public interest provides justification for the requirement. Indeed, it could be argued that those members returning to work following a period of absence, whether planned or not, represent a category of members who would most benefit from an increased CPD programme.

- 5. Some respondents questioned the rationale behind the Profession's proposal to introduce credit checks for PC applicants and queried the consequences of a "failed" or "adverse" credit check.**

Whilst a section of the respondents to question 9 confirmed that they already submit to both criminal and credit checks by their employers, some communicated that they were

uncomfortable with credit checks in particular and could not see how this information could be relevant to their roles.

The Profession already asks applicants to disclose whether they have been adjudicated bankrupt or failed to satisfy any debt adjudged to be due by them. The purpose of the credit check is to verify that the information provided by applicants is correct. Matters disclosed in the credit check but not required to be disclosed on the application form will be unlikely to result in the refusal of an application.

The Working Party did consider this proposal carefully as it recognised that it may be seen to represent an infringement of applicants' privacy. The checks were, however, deemed to be a proportionate measure given that one of the main criticisms of the current regime is that it relies too heavily on self-certification.

Similar considerations apply to the UK criminal records check.

Any member who, by operation of the credit or criminal record checks, is suspected to have provided false information to the Profession may be referred under the Disciplinary Scheme, although applicants will first be given the opportunity to explain any apparent anomaly as part of the application process.

- 6. There was a view amongst some respondents that the proposal addressed within question 13 of the consultation paper (applicants to confirm within application forms that they expect to have sufficient time and resources to undertake any reserved role work) will be made redundant as all applicants are likely to answer in the affirmative.**

The Profession is not expecting to see any negative responses to this question, as it anticipates that completing the declaration will encourage applicants to reflect upon their work commitments, as they stand at the time of the application, as against the time and resources which they have at their disposal to carry out the reserved work, and to plan them so as to enable completion of the declaration. This does not however invalidate the need to ask.

- 7. Some respondents considered that the recommendation that the practice of peer review, which some PC holders are subject to, be extended to all certificate holders would be problematic for small firms, increasing costs and having confidentiality implications.**

The extension of peer review is a matter for further consideration by the Profession at a future date. The Working Party did not consider it appropriate to make specific recommendations at the present time.

Consultation on practising certificate regime proposals



1. Do you agree with the Working Party's proposal to have a practising certificate holder confirm each initial applicant's claims to experience and general suitability to hold a certificate?

		Response Percent	Response Count
Strongly agree		22.4%	164
Agree		59.3%	434
Neither agree nor disagree		6.8%	50
Disagree		7.8%	57
Strongly disagree		3.7%	27

If you disagree with the Working Party's recommendation, what steps would you propose to allow the Profession to verify an initial applicant's claims to experience and suitability? 139

answered question	732
skipped question	213

2. Do you agree with the Working Party's proposal for the declaration to be completed by the vouching practicing certificate holder? The proposed declaration is set out at Appendix D to the practising certificates regime consultation paper.

		Response Percent	Response Count
Strongly agree		12.7%	92
Agree		60.5%	438
Neither agree nor disagree		12.8%	93
Disagree		9.9%	72
Strongly disagree		4.0%	29

If you disagree, please let us have your alternative suggestions for the wording of such a declaration. 150

answered question	724
skipped question	221

3. Do you consider that the mentoring option for initial certificate holders ought to be removed, as the Working Party recommend?

		Response Percent	Response Count
Strongly agree		15.4%	112
Agree		41.3%	301
Neither agree nor disagree		25.1%	183
Disagree		15.2%	111
Strongly disagree		3.0%	22

Additional comments 171

answered question	729
skipped question	216

4. The Working Party recommend that all experience relied upon by initial applicants, both technical and professional, ought to have been obtained post qualification as a Fellow. Do you agree with this recommendation?

		Response Percent	Response Count
Strongly agree		18.6%	136
Agree		37.0%	270
Neither agree nor disagree		11.1%	81
Disagree		25.8%	188
Strongly disagree		7.5%	55
Additional comments			262
answered question			730
skipped question			215

5. Do you agree with the recommendation that an initial applicant's claims to experience and knowledge/skills ought to be subject to verification on a random sampling basis?

		Response Percent	Response Count
Strongly agree		17.7%	129
Agree		56.4%	411
Neither agree nor disagree		15.0%	109
Disagree		8.6%	63
Strongly disagree		2.3%	17
Additional comments			161
answered question			729
skipped question			216

6. Do you agree with the recommendation that actuaries must have a minimum of three years qualified experience (i.e. Fellowship experience) before applying to hold a practising certificate?

		Response Percent	Response Count
Strongly agree		23.7%	173
Agree		40.5%	296
Neither agree nor disagree		11.9%	87
Disagree		18.8%	137
Strongly disagree		5.1%	37
	Additional comments		230
	answered question		730
	skipped question		215

7. Do you agree that initial applicants should be required to have fulfilled the 'category 1' CPD requirements in the 12 months immediately preceding their application?

		Response Percent	Response Count
Strongly agree		33.4%	242
Agree		47.7%	345
Neither agree nor disagree		8.8%	64
Disagree		9.0%	65
Strongly disagree		1.1%	8
	Additional comments		126
	answered question		724
	skipped question		221

8. The Working Party recommends that all technical experience specified within an applicant's initial application must have been gained within the preceding four years, with at least three months of that experience having been gained in the 12 months prior to application being made. Do you agree with this proposal?

		Response Percent	Response Count
Strongly agree		17.2%	124
Agree		55.0%	397
Neither agree nor disagree		14.0%	101
Disagree		11.2%	81
Strongly disagree		2.6%	19
	Additional comments		171
answered question			722
skipped question			223

9. Do you agree with the recommendation of the Working Party that all initial applicants ought to submit to credit checks and criminal record checks prior to their application for a practising certificate being approved, with a framework to be established for the rejection of applications on the basis of negative results?

		Response Percent	Response Count
Strongly agree		20.3%	147
Agree		45.4%	329
Neither agree nor disagree		17.1%	124
Disagree		12.6%	91
Strongly disagree		4.6%	33
	Additional comments		235
answered question			724
skipped question			221

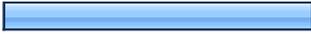
10. If you agree with the proposal, please confirm how you consider the Profession ought to implement the recommended credit checks

		Response Percent	Response Count
The Profession should carry out credit checks on applicants based upon information supplied within the practising certificate application		80.5%	430
Applicants should obtain credit checks independently and produce the results to the Profession		19.5%	104
	Another option (please specify)		73
		answered question	534
		skipped question	411

11. If you agree with the proposal, please confirm how you consider the Profession ought to implement the recommended criminal record checks

		Response Percent	Response Count
The Profession should gather the necessary original documentation from applicants (e.g. passport or driving licence etc) and apply to the CRB or Disclosure Scotland for basic disclosure checks		73.0%	400
Applicants should apply to the CRB or Disclosure Scotland directly for basic disclosure checks and produce the resulting certificates to the Profession		27.0%	148
	Another option (please specify)		70
		answered question	548
		skipped question	397

12. Do you consider that criminal record and credit checks ought to be carried out for all practising certificate holders every five years?

		Response Percent	Response Count
Strongly agree		7.9%	57
Agree		46.5%	336
Neither agree nor disagree		24.5%	177
Disagree		15.1%	109
Strongly disagree		6.0%	43

Additional comments 177

answered question 722

skipped question 223

13. Do you agree with the recommendation that applicants are required to confirm within application forms that they expect to have sufficient time and resources to undertake the reserved role work which they expect to carry out in the following year?

		Response Percent	Response Count
Strongly agree		18.7%	135
Agree		52.6%	380
Neither agree nor disagree		15.1%	109
Disagree		10.5%	76
Strongly disagree		3.2%	23

Additional comments 178

answered question 723

skipped question 222

14. Do you agree with the Working Party's recommendation to have a lay member appointed to the Practising certificates committee?

		Response Percent	Response Count
Strongly agree		16.0%	115
Agree		50.6%	363
Neither agree nor disagree		27.1%	194
Disagree		5.3%	38
Strongly disagree		1.0%	7
	Additional comments		81
	answered question		717
	skipped question		228

15. The Working Party have recommended that the Practising certificates committee publish a standardised process for the approval of the certificate application, including guidelines for the consistent completion of applicants' declarations and the assessments made by the committee on the basis of those declarations. Do you agree with this recommendation?

		Response Percent	Response Count
Strongly agree		23.3%	167
Agree		64.2%	460
Neither agree nor disagree		10.7%	77
Disagree		1.4%	10
Strongly disagree		0.4%	3
	Additional comments		86
	answered question		717
	skipped question		228

16. Do you agree with the recommendation that guidelines on identifying and avoiding conflicts of interest arising within the application process ought to be developed by the Practising certificates committee?

		Response Percent	Response Count
Strongly agree		14.7%	105
Agree		62.6%	447
Neither agree nor disagree		18.2%	130
Disagree		3.6%	26
Strongly disagree		0.8%	6

Additional comments 70

answered question 714

skipped question 231

17. Do you agree that a practice of internal audit of the practising certificates regime ought to be established in order to ensure that the appropriate guidelines are being followed?

		Response Percent	Response Count
Strongly agree		10.8%	77
Agree		65.2%	464
Neither agree nor disagree		19.4%	138
Disagree		3.7%	26
Strongly disagree		1.0%	7

Additional comments 55

answered question 712

skipped question 233

18. Do you agree with the recommendation that the requirement of peer review, to which some practising certificate holders are already subject, ought to be extended to all certificate holders?

		Response Percent	Response Count
Strongly agree		16.7%	120
Agree		50.8%	364
Neither agree nor disagree		22.2%	159
Disagree		7.8%	56
Strongly disagree		2.5%	18

Additional comments 122

answered question 717

skipped question 228

19. The Working Party have recommended that the practice executive committees ought to be asked to organise CPD events for practising certificate holders, where this does not already occur. Do you agree with this recommendation?

		Response Percent	Response Count
Strongly agree		25.4%	181
Agree		54.1%	386
Neither agree nor disagree		13.6%	97
Disagree		4.3%	31
Strongly disagree		2.5%	18

Additional comments 137

answered question 713

skipped question 232