



Institute
and Faculty
of Actuaries

Consultation on the Regulation of Chief Risk Officer roles under the Solvency II regime

Part 2 - Detailed considerations

by the Regulation Board

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FOREWORD

We would like to invite you to participate in this second round of consultations by the Institute and Faculty of Actuaries (IFoA) on the regulation of roles which actuaries may perform under the Solvency II regime.

Our first consultation on the regulation of actuarial roles under Solvency II, published in April this year, addressed actuaries' roles in the actuarial function, the risk management function and internal audit function. The feedback we received differed for each of these areas; accordingly, our response differs by each area.

- We have decided that it is appropriate to introduce a compulsory Practising Certificate for our members who are approved to undertake the actuarial function (the 'Chief Actuary' role to adopt the Prudential Regulation Authority's (PRA's) proposed terminology) under the Senior Insurance Managers Regime in both Life and non-Life undertakings.
- We also intend to introduce a Practising Certificate for our members responsible for the risk management role (Chief Risk Officer role, to adopt the proposed terminology) under Solvency II. This will be available on a voluntary basis.

We have decided not to proceed with any additional regulatory intervention in relation to the internal audit function, recognising that this function will, in all likelihood, not be performed primarily by our members.

The following consultation document describes the detail of our proposals as they relate to the Chief Risk Officer role. Both the Chief Actuary and Chief Risk Officer roles are as described in the Prudential Regulation Authority's Consultation Paper "[CP26/14 Senior insurance managers regime: a new regulatory framework for individuals](#)"

We ask a number of open questions in this consultation and we would encourage you to provide comments to support your answers.

As with our earlier consultations, in addition to responses from IFoA members, we are particularly keen to hear from those who make use of actuaries and their advice, including in particular insurance company boards. We would again also be pleased to hear from fellow regulators.

We intend to use the information we obtain from this consultation to assess whether or not a Practising Certificate would be of use to IFoA members and users of their services in demonstrating the attainment of the high standards of professionalism and competence which we recognise our members will need to demonstrate to successfully carry out the Chief Risk Officer function. Before we decide to proceed, we also will take into account the costs of initial set up and ongoing maintenance of the Practising Certificate regime. We intend to update our Practising Certificate regime in time for the inception of Solvency II on 1 January 2016.

We thank you for taking the time to consider these proposals and look forward to receiving your comments.

Des Hudson
Chair of the Regulation Board

Section 1

Background to the Consultation

As we have emphasised in the earlier consultations, as a professional body incorporated by Royal Charter, the IFoA's aim primarily is to ensure the protection of the public interest by establishing a suitably proportionate, risk focussed and targeted regulatory framework. This framework will enable users of actuarial services to have confidence in the advice they receive from our members. It will also help our members move into roles for which they are appropriately qualified by demonstrating the breadth and depth of their experience. We have considered the requirements of the Solvency II Directive with a particular focus on the protection of the public interest. We have been concerned to ensure that our proposals are of benefit to insurance company boards in their assessment of appointments to the roles established by Solvency II and the Prudential Regulation Authority (PRA) and in assisting those boards with ongoing assurance of confidence in the role holders.

On 11th April 2014, the IFoA published a [consultation](#)¹, in response to the introduction of the Solvency II Directive ("the Directive")². The purpose of that consultation was to canvass views to inform our approach to the regulation of our members who may perform significant functions under the Directive.

That consultation exercise attracted a range of responses which have informed this current consultation. We have published the feedback on our [website](#)³.

We focussed the earlier consultation on three functions (using the terminology in the Directive):

- Actuarial function;
- Risk management function; and
- Internal audit.

Given the differing skills required of each role, the range of professionals performing the roles and the range of responses received, we have broken down this second stage of the consultation process into two distinct consultations (using the terminology now adopted by the PRA):

- (1) Chief Actuary role; and
- (2) Chief Risk Officer role.

As mentioned in the foreword, we have decided not to proceed with any additional regulatory intervention in relation to the Internal audit function (the Head of Internal Audit, to adopt the PRA's terminology) so will not be consulting further on this now. We will, however, keep this decision under review and, should circumstances change, we may reconsider this approach.

¹ <http://www.actuaries.org.uk/research-and-resources/documents/solvency-ii-consultation-paper>

² <http://eur-lex.europa.eu/legal-content/EN/ALL/?jsessionid=1B3ZT2SQ3pQlwyX1JZhHRMZGyq25tpBD9LjQnSnWMPpJhvHSLM8x!-482991830?uri=CELEX:32009L0138>

³ http://www.actuaries.org.uk/Completed_Consultations_and_Discussion_Papers

Section 2

2.1 Conclusions from the IFoA consultation dated 11th April 2014 on the Regulation of Actuarial Roles under the Solvency II Regime

We are considering introducing a Practising Certificate (PC) for which IFoA members fulfilling a PRA approved Chief Risk Officer role could choose to apply. As with other IFoA PCs there would be clearly defined criteria which such members would need to demonstrate to be eligible for the PC. We provide more detail on this in the paragraphs below.

We recognise that the Chief Risk Officer role may on occasion be performed by more than one person and that in certain circumstances it will be permissible for different individuals to be responsible for discrete parts of the required work. In such circumstances, each member may wish to hold a relevant Practising Certificate.

2.2 Reasons

The reasons why we are proposing the introduction of a voluntary Practising Certificate for the Chief Risk Officer role are as follows:

- Our understanding is that the role will often be performed by Fellows of the IFoA. There is therefore possibly a public expectation that, where that is the case, the IFoA will have a regulatory responsibility in relation to those performing the role. We recognise however that, unlike the Chief Actuary role, there will also be many who are not IFoA members carrying out this role. Therefore, we do not consider it appropriate to impose a compulsory requirement on our members to hold a PC. Instead, we can readily see the benefits which a PC would bring, so consider it would be appropriate to offer this to members on a voluntary basis.
- There is an existing Practising Certificate regime which may be familiar to Boards of insurance undertakings. We think it would be appropriate, having regard to the public interest, to reflect the Risk Management element of the PRA's supervision regime in the practising certificate framework. The market would then dictate whether there is sufficient demand for the Practising Certificate. We will monitor the level of interest both from IFoA members and from their employers' Boards to assess the usefulness of the PC.
- We recognise that it can be difficult for those who are not actuaries to assess the benefit and quality of actuarial skills. This may be particularly true for smaller insurers who may not have the experience necessary to exercise this judgment. We are strongly of the view that a Practising Certificate issued by the IFoA would assist Boards in that assessment.
- The consultation feedback supported this approach, in that a significant majority of respondents who answered this question supported the introduction of a voluntary Practising Certificate for the risk management function holder.
- For now, we propose to make the PC available to IFoA Fellows holding Chief Risk Officer roles only in undertakings regulated by the PRA. As at the date of this paper, it is not clear what approach other EU regulators will adopt. The IFoA does not wish to cause any unintended consequences such as conflicting, confusing or duplicative regulation. We will review the geographical extent of the proposals within 3 years when the position across the EU is clearer.

Section 3

3.1 Proposed structure of the Practising Certificate regime

If we consider that there will be sufficient demand for a Chief Risk Officer PC based on the level of interest shown, we will incorporate this within the IFoA's current Practising Certificate regime. As such, it will be renewable on an annual basis and members will need to demonstrate their continued compliance with a number of defined criteria. We will be seeking suitably experienced volunteers from the Risk Management practice area to join the Practising Certificates Committee to ensure that the applications are processed fairly.

As with the existing regime, we propose that the standards necessary to obtain a PC would comprise generic and technically specific elements.

3.2 Generic Criteria

The generic criteria which all successful applicants would need to meet would broadly be similar to the existing PC regime generic criteria and would apply to the PRA approved Chief Risk Officer role as follows:

- The applicant must be a Fellow of the IFoA. This would include members who qualified by examination and those admitted under the terms of a Mutual Recognition Agreement with another actuarial organisation. For information on mutual recognition see the IFoA website⁴.
- For first time applicants for a PC, a current holder of an IFoA Chief Risk Officer PC must attest to the professional suitability of the applicant to fulfil the role of a certificate holder. This will enable the PC Committee to form a view on this important aspect of the role.

Note: As a transitional measure to reflect the fact that there has not been a history of holding Practising Certificates for risk management roles, the requirement for the attestor to hold a Chief Risk Officer PC would be relaxed in the first year. At the outset, we propose that the attestation of suitability can be given by any Fellow with 5 years post qualification experience provided that the attestor is not a person over whom the applicant has influence in the workplace. This relaxation will be reviewed after the first year of operation and we anticipate by then that there will be sufficient PC holders across all parts of the industry to enable it to be removed and the usual attestation requirements will be applicable.

- The applicant will be required to undergo credit and criminal record checks as considered necessary to ascertain their fitness and propriety.
- Any adverse Disciplinary Tribunal finding, court or regulatory authority judgment or finding will be taken into account by the Practising Certificates Committee (PCC). The PCC will need to be satisfied that the actuary is a suitable person to hold a certificate despite the fact of an adverse finding.

3.3. Technical Criteria

We propose that successful applicants for Chief Risk Officer PCs will demonstrate breadth and depth of relevant experience reflecting the Solvency II requirements as set out in Articles 44 and 45 of the Level 1 text, and Articles 251, 252 and 259 of the Level 2 text ("the risk management articles").

A member applying for a Chief Risk Officer PC will need to demonstrate that:

⁴ <http://www.actuaries.org.uk/members/pages/mutual-recognition-qualifications>

- They have sufficient breadth of recent work experience within risk management, with recent being defined as being “not more than 10 years ago”; and
- as in the current PC regime, they have relevant experience, post qualification, in 3 of the last 4 years and in 3 of the last 12 months which will enable them to fulfil the requirements of the risk management articles.

The breadth of experience should include experience in all or almost all of the technical areas below:

- ERM Concept and Framework:
 - Including strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report the risks to which an insurer is exposed.
- ERM Process:
 - Including a risk appetite framework, written risk policies for the different risk categories, levels of acceptable risk limits for each type, and establishing appropriate control mechanisms.
- Risk Categories and Classification: including coverage of at least the following areas:
 - (a) underwriting and reserving;
 - (b) asset – liability management;
 - (c) investment, in particular derivatives and similar commitments;
 - (d) liquidity and concentration risk management;
 - (e) operational risk management;
 - (f) reinsurance and other risk mitigation techniques.
- Risk Measurement and Assessment:
 - including stress tests and scenario analysis.
- Risk Modelling and Aggregation of Risks:
 - including techniques for the quantification of risks, on an individual and aggregated level, to which the firm is or could be exposed;
 - including determination of risk interdependencies and aggregation of risks.
- Risk Management Tools and Techniques:
 - including risk mitigation strategies, and asset liability matching strategies.
- Economic Capital:
 - including the relationship with regulatory capital;
 - and for role holders in firms with an Internal Model: the design and implementation, the testing and validation, and the documentation of the Internal Model and any changes.
- ORSA: experience of conducting an Own Risk and Solvency Assessment.

Note that the headings for the technical criteria are derived from the syllabus for ST9, and the examples of specific activities are derived from the Solvency II text on the risk management function.

3.4 Exercise of Discretion

As with the existing PC Scheme, the Practising Certificate Committee (PCC) may exercise its discretion and grant a certificate where an applicant can demonstrate sufficient alternative recent and relevant technical experience

3.5 Continuing Professional Development (CPD) requirements

It is proposed that Chief Risk Officer PC holders will need to undertake additional Continuing Professional Development (CPD) in line with other IFoA members who hold a PC. The CPD Scheme for 2014/15 can be found on the IFoA [website](#).⁵ We recognise however that we will need to introduce transitional arrangements to ensure that members taking up the Chief Risk Officer role for the first time are able to comply. We propose therefore that the requirement to undertake an increased amount of CPD for the year leading up to the award of a member's first PC will be relaxed in the initial period. Given the importance of the role and the significant changes which will be required to working practices, we encourage all affected members to take up additional CPD as may be required over the course of 2015.

Applicants for a PC must comply with the requirements of Category 1 of the IFoA's CPD Scheme. This currently requires 30 hours of CPD to be completed in each certificate year.

Additionally, applicants must have completed Category 1 CPD requirements in the year leading up to the first PC application. It is proposed that this requirement will be relaxed in the first year of operation of the regime.

⁵ <http://www.actuaries.org.uk/research-and-resources/documents/cpd-continuing-professional-development-scheme-20142015>

Section 4

Questionnaire

We invite your comments on the above proposals. It would be helpful if you would provide your comments by responding to the following questions.

An online version of the questionnaire can be found on the IFoA's website at: <http://www.actuaries.org.uk/regulation/pages/consultations-and-discussion-papers>. In order to analyse efficiently the results, survey respondents are encouraged to complete the online survey – even if you need to leave some fields blank. We do appreciate that some respondents will wish to respond in an alternative form. If you choose to respond in that way, we may contact you to request an electronic version of your response. Our email address is croconsultation@actuaries.org.uk

The following questions about you help us understand who our respondents are.

1. About You

Name	
Name of Firm	
Position held	

2. Are you a member of the Institute and Faculty of Actuaries?

Yes	No	
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3. Do you want your name to remain confidential?

Yes	No	
-----	----	--

4. Do you want the name of your organisation to remain confidential?

Yes	No	
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5. Do you want your comments to remain confidential?

Yes	No	
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6. If you are a member of the Institute and Faculty of Actuaries, which category of membership do you hold?

Student		Honorary Fellow	
Affiliate		Student Actuarial Analyst	
Associate		Certified Actuarial Analyst	
Fellow			

7. What is your practice area? (If more than one, please indicate all that apply)

Life		Health and Care	
General Insurance		Education	
Pensions		Retired	
Finance and Investment		Other	
Risk Management			

8. Do you hold a Practising Certificate issued by the Institute and Faculty of Actuaries?

Yes		No	
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9. If yes, which area of practice does it cover?

Pensions	
Life	
Lloyd's	

10. What is the name of your organisation (if applicable)?

Name	
------	--

11. What type of organisation do you work for?

Actuarial Consultancy		Investment Firm	
Insurance Company		Other	
Bank			
If other, please comment:			

12. If your organisation is an actuarial consultancy, what is the size of your organisation?

Sole practitioner	26-40 Fellows or Associates	
2-10 Fellows or Associates	40+ Fellows or Associates	
11-25 Fellows or Associates		

13. Do these comments represent your own personal views or your organisation's views?

Personal views	Organisation's views	
Both		

The following questions relate to your views on the consultation paper

14. Do you agree with the proposal to introduce a voluntary Practising Certificate to be available to IFoA members holding the PRA approved Chief Risk Officer role in Life and non-Life insurance undertakings?

Yes	No	
Comments		

15. Do you agree that if the IFoA introduces a Chief Risk Officer Practising Certificate, the IFoA proposals should be aligned with the PRA's approved person regime?

Yes	No	
Comments		

16. Do you agree that where members perform more than one Solvency II role there should be a process of dual approval resulting in two Practising Certificates?

Yes	No	
Comments		

17. Do you agree that we should review the geographical extent of the proposal within 3 years once the approach of other European regulators is clearer?

Yes	No	
Comments		

18. Do you agree that any Chief Risk Officer Practising Certificate should be renewed annually as in the existing regime?

Yes	No	
Comments		

19. Do you agree that PRA approved Chief Risk Officers should be required to undertake additional Continuing Professional Development (CPD) in line with other IFoA members who hold a Practising Certificate?

Yes	No	
Comments		

20. Do you agree with the proposed CPD transitional arrangements for members taking up responsibility for the Chief Risk Officer role for the first time?

Yes	No	
Comments		

21. Do you agree with our conclusion that the PRA approved Chief Risk Officer role will often be performed by Fellows of the IFoA?

Yes	No	
Comments		

22. Do you agree that a Chief Risk Officer Practising Certificate issued by the IFoA would provide support to insurance company boards in their assessment of fitness and propriety as required by PRA?

Yes	No	
Comments		

The following questions relate to the proposed generic criteria

23. Do you agree with the proposed generic criteria for Chief Risk Officer Practising Certificates?

Yes	No	
Comments		

24. Do you agree that the proposed Chief Risk Officer Practising Certificate should only be issued to Fellows of the IFoA?

Yes	No	
Comments		

25. Do you agree that the holder of an IFoA Chief Risk Officer Practising Certificate should attest to the professional suitability of the applicant to fulfil the role of a Practising Certificate holder?

Yes	No	
Comments		

26. Do you agree with the proposed transitional arrangements to relax the attestation of suitability so that for the first year this can be given by any Fellow with 5 years post qualification experience (provided that the attester is not a person over whom the applicant has influence in the workplace)?

Yes	No	
Comments		

27. Do you agree that the applicant should be required to undergo credit and criminal record checks as considered necessary to ascertain their fitness and propriety?

Yes	No	
Comments		

The following questions relate to the proposed technical criteria

28. Do you agree with the proposed technical criteria in general?

Yes	No	
Comments		

29. Do you agree that all applicants should demonstrate that they have sufficient breadth of recent work experience within risk management (with recent being defined as not more than 10 years ago); and that they have relevant experience, post qualification, in 3 of the last 4 years and in 3 of the last 12 months which will enable them to fulfil the requirements of the risk management articles?

Yes	No	
Comments		

Do you agree that the breadth of experience should include experience in all or almost all of the technical areas listed in questions 30-37 as described in the consultation paper? Please comment on each.

30. ERM Concept and Framework

Include in technical criteria?		
Yes	No	
Comments		

31. ERM Process

Include in technical criteria?		
Yes	No	
Comments		

32. Risk Categories and Classification

Include in technical criteria?		
Yes	No	
Comments		

33. Risk Measurement and Assessment

Include in technical criteria?		
Yes	No	
Comments		

34. Risk Modelling and Aggregation of Risks

Include in technical criteria?		
Yes	No	
Comments		

35. Risk Management Tools and Techniques

Include in technical criteria?		
Yes	No	
Comments		

36. Economic Capital

Include in technical criteria?		
Yes	No	
Comments		

37. ORSA

Include in technical criteria?		
Yes	No	
Comments		

38. If the IFoA decides to introduce a voluntary Practising Certificate for PRA Chief Risk Officers, and if you meet the criteria, would you apply for such a Certificate? (Assume the costs are similar to the existing Practising Certificated)?

Include in technical criteria?		
Yes	No	
Comments		

39. Do you have any other comments on the proposals or wish to add anything to inform our thinking?

Yes	No	
Comments		

Section 5

How to respond to this Consultation

The deadline for responses is 23 February 2015.

Responses should be sent to croconsultation@actuaries.org.uk.

A link to an online version of the questionnaire can be found on the IFoA's [website](#)

You can also send a response by post to:

**Chief Risk Officer Role under the Solvency II regime
(C/o Karen Cross)
The Institute and Faculty of Actuaries
Level 2
Exchange Crescent
7 Conference Square
Edinburgh EH3 8RA**

Collation of results, analysis and publication

The survey responses will be collated by the IFoA Executive and then shared with the Working Party and/or the Regulation Board. A list of respondents and responses may be published by the IFoA in its feedback document. Please set out clearly if you do not wish your name and/or response to be published. Responses will not be personally attributed to any particular respondent. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.

Consultation Meetings

We also encourage members and interested stakeholders to attend one or other of the following two consultation meetings to discuss and comment on these proposals:

The first will be held in Edinburgh from 17:00 hrs on 12 January 2015. Refreshments will be served from 16:30 hrs: and

The second will be held in London from 17:00 hrs on 14 January 2015. Refreshments will be served from 16:30 hrs.

In order for us to gauge participant numbers, we should be grateful if you could please inform us via email to karen.cross@actuaries.org.uk if you are planning to attend either of these meetings.

Section 6

CPD

IFoA members may be entitled to claim CPD hours for reading this consultation paper and completing the relevant questionnaire. Please check the CPD scheme for your particular category recording and eligibility requirements.

Thank you for your time and interest.