The Actuarial Profession
making financial sense of the future

consultation response

Financial Services Authority

Consultation Paper 10/3

Effective corporate governance

April 2010

About The Actuarial Profession

The Actuarial Profession is governed jointly by the Faculty of Actuaries in Edinburgh and the Institute of Actuaries in London, the two professional bodies for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuing professional development and a professional code of conduct supports high standards reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business's assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals, and advise on social and public interest issues. Members of the Profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

The Profession also has an obligation to serve the public interest and one method by which it seeks to do so is by making informed contributions to debates on matters of public interest.

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Nigel Fray
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Dear Nigel

FSA Consultation Paper 10/3 Effective corporate governance (Significant influence controlled functions and the Walker review)

The Actuarial Profession welcomes the FSA's proposals, which take on board most of the Walker review proposals on which we expressed views in our 3 April and 5 October 2009 letters to Sir David Walker.

The elements of the CP dealing with approved persons roles are generally very positive and provide greater clarity on the roles of parent company directors and the more detailed roles that certain directors play, such as Chair of Audit Committee. The greater granularity to be provided by splitting out the CF28 role into Finance, Risk and Internal Audit is particularly helpful.

The formal creation of a CRO role within FSA regulations, we believe, will ensure that at Group level there is someone looking at the risks of the entire business across all risk categories.

It would be helpful if FSA would clarify the intended interaction between the CRO at parent company level and the roles and responsibilities at the level of regulated entity within the group and how FSA sees the interaction between the CRO and Actuarial Function Holder.

We consider it is important that the roles given by SUP 4.3.13R to the Actuarial Function are not forgotten or compromised. These responsibilities have generally worked well and have stood life insurers in good stead through the current crisis. It would be unfortunate if, in creating the role of CRO, FSA were to reduce the influence of the actuarial function and the ability of those actuaries to be heard at appropriate levels within insurers. Removal or reduction of the responsibilities of SUP 4.3.13R (1) in particular would lead to the effective removal of the actuarial control function and leave only a narrow valuation function. We believe it is important to have both a strong and robust actuarial and risk function and note that this is what is envisaged under the Solvency II Directive.

We would welcome the creation of a Board level Risk Committee; the proposed terms of reference appear sensible, although we would suggest that there should perhaps be less focus on oversight of day to day risk management and greater emphasis on forward looking emerging and strategic risk management.

Yours sincerely,

Malcolm Kemp

Chairman,
Enterprise Risk Management Practice Executive Committee