The Actuarial Profession
making financial sense of the future

Consultation Paper response
Financial Services Authority
Quarterly Consultation No 24 – CP10/10

June 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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Peter Cardinali
Financial Planning and Management
Information - Fees Policy
Financial Services Authority
25 the North Colonnade
Canary Wharf
LONDON
E14 5HS

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Dear Mr Cardinali

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Thank you for providing the Actuarial Profession with the opportunity to comment on this Consultation Paper. We set out below our observations on your proposals. We are happy for this letter to be placed in the public domain.

This Consultation Paper proposes new rules on financial reinsurance and analogous arrangements. The most significant change is that new cashless fin re arrangements should be ineffective. Some reasons are put forward in the Consultation Paper to support this, but they are not wholly persuasive. In particular the credit exposure to which cashless fin re gives rise is more generally applicable and should result in the establishment of a default reserve in the normal way. Solvency II also seems a red herring as naturally this type of reassurance is not required in a market-consistent regime. All the issues raised could be satisfactorily met without this rule change, as the credit risk and capital planning implications are already covered in other rules in INSPRU or GENPRU.

It should also be observed that financial reassurance generally is not effective in the ICA assessment - indeed for cashless reassurance it is detrimental as allowance must be made for the payment of future premiums.

If you have any questions or would like to discuss any of these matters further, please do not hesitate to contact us as per details below.

Pauline Simpson, Secretary to the Life Practice Executive Committee,
The Actuarial Profession, Napier House, 4 Worcester Street, Oxford OX1 2AW
e-mail: pauline.simpson@actuaries.org.uk
Telephone: 01865 268237

Yours sincerely

Andrew Chamberlain

Chairman, Life Practice Executive Committee’s Consultation Committee