



The Actuarial Profession

making financial sense of the future

**Response to FSA Quarterly
Consultation (No 27)
CP11/01**

March 2011

About the Actuarial Profession

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous 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' 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 offer comment 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.

4 March 2011

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Dear Ms Anderson

Quarterly Consultation No 27 – CP11/01

Thank you for providing the Actuarial Profession with the opportunity to comment on this Consultation Paper. We have some comments on the following chapters:

Chapter 2 Capital instruments:pre-issuance notification

Chapter 7 Approved indices and COBS 21 and

Chapter 8 Retail Distribution Review – exemption of certain Holloway sickness policies.

We set out below our observations on your proposals in these chapters. We are happy for this letter to be placed in the public domain.

Chapter 2 Capital instruments:pre-issuance notification

The rationale for this rule change is well set out in 2.15, namely that it is intended to ensure that the FSA will be informed of any new, unusual or different features and allow monitoring of development of features in capital instruments before they are issued. This seems to us to be reasonable, but in our view the rationale does not justify the need to give advance notice of the intention to raise ordinary share capital and we believe this common form of capital raising should be exempted.

Chapter 7 Approved indices and COBS 21

While we support the sentiments in this proposal, we are concerned that there is currently a lack of suitable investments to meet the close matching rule in INSPRU 3.1.58R. FSA will need to make clear how it interprets this requirement when the link is to the CPI.

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Chapter 8 Retail Distribution Review – exemption of certain Holloway sickness policies

8.1: Do you agree that Holloway policies with a small investment element should be exempt from the RDR Adviser Charging and Professionalism requirements?

If not, please give your reasons and provide any supporting evidence.

We agree with the proposal

Q8.2: If your answer to Q8.1 is 'Yes', please say which option you support for defining 'small investment element':

- (a) our proposed threshold of a projected maturity value of 20% or less of total premiums, based on the mid-rate projection used by the Holloway provider; or
- (b) a different solution.

We consider the proposed threshold is a satisfactory way of defining a small investment element.

Q8.3: If your answer to Q8.2 is (b), please give your reasons and explain how you think we should define 'small investment element'.

Q8.4: Do you have any other comments on the draft rules in Appendix 8?

We have no further comments

I would be grateful if you could forward our comments to the relevant persons within the FSA. If you, or they, have any questions or would like to discuss any of these matters further, please do not hesitate to contact us as per details below.

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Yours sincerely

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