



**The Actuarial Profession**

making financial sense of the future

## Consultation response

### HM Treasury

A new approach to financial regulation: building a stronger system

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April 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.

Financial Regulation Strategy  
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14 April 2011

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Dear Sirs

## **A NEW APPROACH TO FINANCIAL REGULATION: BUILDING A STRONGER SYSTEM**

I am writing on behalf of the Actuarial Profession in response to HM Treasury's consultation entitled 'A new approach to financial regulation: building a stronger system'. The Actuarial Profession represents the members of the Institute and Faculty of Actuaries, the UK based chartered professional body for actuaries. Actuaries work in insurance, pensions, healthcare, investment and banking as well as in the management of risk, and so are directly involved in many of the areas covered by the proposed regulatory structure and, of course, as a profession actuaries are themselves overseen by the Financial Reporting Council.

The Actuarial Profession welcomes the overall proposals, and looks forward to working with the relevant authorities in implementing them with regard to the explicit duties and accountabilities of actuaries. In our response to this consultation we have restricted our comments to the section on Actuaries and Auditors (5.92-5.95) in the document.

Our understanding is that the proposals are intended to transfer to the new regulatory authorities the existing powers vested in favour of the FSA, as set out in section 345 of the Financial Services and Markets Act 2000 (FSMA), which allow the FSA to disqualify actuaries from acting on behalf of an authorised person or any particular class of authorised person. However we also note that it is proposed to strengthen the existing powers by giving the new regulatory authorities power to disqualify any individual professional they deem to have failed to comply with the duties under FSMA, irrespective of whether they were appointed as an individual or were representing their firm.

We do have a concern that the process set out in section 5.95 to disqualify actuaries, as drafted, is so wide in its scope. We believe this revised power should be framed, and exercised, proportionately and preferably in a way that reinforces the Actuarial Profession's own disciplinary arrangements. In fairness to the individuals who might be affected, it is also important that any process to enforce this extended power should follow the principles of natural justice.

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As you will be aware the Actuarial Profession has its own disciplinary scheme, and is included within the remit of the Accounting and Actuarial Discipline Board, part of the FRC. There may be circumstances where referral to our disciplinary scheme, or the AADB Scheme, may be a more proportionate and appropriate response. For example, where an actuary performs a statutory duty, we require them to obtain a Practising Certificate, a process which requires annual renewal. A possible outcome of our disciplinary process is a withdrawal of an actuary's certificate to perform regulated tasks.

It should also be noted that in the proposed Solvency II regulatory regime for insurers the performing of regulated actuarial activity is not restricted to members of a recognised actuarial profession. We believe that there are merits in ensuring that any regulation or power pertaining to disqualifying actuaries from acting on behalf of an authorised person should also apply to others, who are not members of an actuarial body, acting in the same fashion.

It will be important for the Profession to establish good working relationships with the new authorities, and a framework in which we can work closely together towards achieving effective and proportionate regulation of actuaries. We stand ready to work with the new authorities to that end.

We hope you find our comments helpful. We would be very happy to discuss these points further with you and the regulatory authorities so that we can together ensure that the new provisions are appropriately framed and that, in the way they are operated, they dovetail effectively with the Profession's own disciplinary machinery.

Yours faithfully



Derek Cribb  
Acting Chief Executive