



Institute  
and Faculty  
of Actuaries

# The FCA's approach to advancing its objectives

Consultation Response

27 September 2013

## **About the Institute and Faculty of Actuaries**

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.



Early Intervention Team  
Cross Cutting, Prudential and Early Intervention Department  
PRR Division  
Financial Conduct Authority  
25 The North Colonnade  
London  
E14 5HS

27 September 2013

Dear Sirs,

### **The FCA's approach to advancing its objectives**

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to provide feedback on the FCA's guidance document, "The FCA's approach to advancing its objectives".

The IFoA is the chartered professional body for actuaries, responsible for regulating its members worldwide, in the public interest. That responsibility extends to setting qualification and competence standards, which are assessed through a rigorous examination framework, and are reinforced by: a practising certificates regime; a well-established ethical Code; practice standards; CPD and disciplinary enforcement. The IFoA is overseen in relation to the exercise of its regulatory function in the UK by the Financial Reporting Council.

Many of the IFoA's members work for organisations in which the FCA also has a regulatory interest; either as a result of its direct regulatory responsibility for those organisations, or through its regulation of the markets in which they operate. The IFoA is a Designated Professional Body for the purposes of the Financial Services and Markets Act 2000 and is therefore overseen by the FCA in relation to its regulation of actuarial firms licensed under that regime.

### **The FCA's commitment to openness and accessibility**

The IFoA welcomes the importance that the FCA places on transparency. Transparency is critical in allowing stakeholders to understand the FCA's approach and the expectations it places on those it regulates; it therefore promotes quality and the attainment of standards, to the benefit of consumers.

The IFoA is supportive of the FCA in its mission to be a transparent and open regulator, including in the sharing of knowledge and insight on issues relevant to and which inform the regulatory agenda. We believe we can help with this. The IFoA is in a position to contribute impartial comment, data and evidence relating to actuarial issues from the IFoA's own specialist research and horizon-scanning activities. The IFoA would appreciate the opportunity to discuss with the FCA what more we might do to support you in the pursuit of our shared public interest agendas.



### **The FCA's regulatory approach and objectives**

The IFoA notes the FCA's three overarching objectives concerning consumer protection, market integrity and competition. As indicated at a number of points in the guidance, the application of these principles will require the exercise of careful judgement, according to the individual circumstances. The IFoA would find it helpful to understand how, more specifically, the FCA envisages exercising this judgement, particularly where, conceivably, one or more of the principles might be seen to conflict - for example, the consumer protection and competition objectives. The IFoA assumes that the overriding consideration will be the public interest and we would welcome further clarification as to how the FCA envisages that this concept will be applied in determining the relative weight to be attributed to its respective objectives in practice.

The IFoA commends the FCA's ongoing commitment to being a risk and evidence-based regulator. While noting the FCA's commitment to "be tougher and bolder, following a strategy of credible deterrence, and using new powers of intervention and enforcement" ("Our aims" section of Chapter 1 of the FCA's guidance document), the IFoA would observe that increased powers and enforcement do not necessarily generate better regulatory outcomes, such powers need to be appropriately targeted. The challenge for any regulator is to act not only decisively and effectively but also proportionately, appropriately and only where there is a demonstrable basis for regulatory intervention.

It strikes the IFoA as being critical that regulators have all of the necessary relevant information to act from a position of informed awareness in seeking to make well-founded regulatory decisions, not least in order to undertake an accurate assessment of risk. This has been a key focus of an initiative in which the IFoA has recently collaborated with the FRC. The IFoA seeks the opportunity to discuss further with the FCA how it intends to ensure it remains appropriately informed, and what the IFoA might do to support the FCA in that objective.

Ongoing feedback from across the market will no doubt be important, not least in helping the FCA to continue, as the IFoA assumes it envisages, to review and evaluate the effectiveness of its proposed regulatory approach. The IFoA would be pleased to play a part in this through regular interaction with you going forward.

### **The importance of effective integration and cohesion in relation to regulatory policy**

The guidance refers in a number of respects to the importance of "joined up" regulation. It mentions specifically the FCA's critical relationship with the PRA, and with other UK and international regulators. The IFoA would find it helpful to understand more fully how the division of responsibilities between the FCA and PRA, in particular, will work in practice. By way of specific example, it is not entirely clear to us where, as between the FCA and PRA, responsibility for assessing 'Approved persons' will now lie. The IFoA appreciates that such issues are likely to become clearer as the new regime becomes embedded.



## Institute and Faculty of Actuaries

More generally, the IFoA welcomes the FCA's commitment to integrated and cohesive regulation. We recognise that the financial services sector as a whole is a complex regulatory environment and this complexity brings with it the obvious risk of regulatory gaps and duplication, as well as potential misunderstanding and confusion. This cannot be to the detriment of consumers, for whom the rapidly changing arrangements constitute something of a maze.

The IFoA will continue to value opportunities to engage with the FCA in relation to policy and regulatory matters and, in particular, for the appropriate sharing of information in relation to issues relevant to the fulfilment of our own public interest responsibilities. As a specific example, we would be keen to have an early discussion with the FCA on the IFoA's developing thinking around the appropriate regulation of those IFoA members who undertake the Actuarial Function role under Solvency II. This is an issue on which the IFoA has had some discussion with the PRA, recognising the shared priority to ensure that those undertaking this role have, and are able to demonstrate, the necessary skills and competence to perform what the IFoA see as a key public interest function. However, we believe that the role also impacts upon aspects of the FCA's operational objectives and would be keen to explore the implications of this further with you.

The IFoA hopes that these comments are helpful, and we look forward to working with the FCA on a number of issues of mutual interest over the coming months. If you have any immediate questions arising from our comments, please do not hesitate to contact Paul Shelley ([paul.shelley@actuaries.org.uk](mailto:paul.shelley@actuaries.org.uk) or 07917604985).

Yours faithfully,

**David Hare**

President, Institute and Faculty of Actuaries