Institute and Faculty of Actuaries

# Solvency II: Remuneration requirements - CP13/16

IFoA response to The Prudential Regulation Authority

2 June 2016

**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.

Alivia Kratke
Bank of England
Threadneedle Street
London
EC2R 8AH

2 June 2016

Dear Ms Kratke

**IFoA response to CP13/16 SII: Remuneration Requirements**

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the Prudential Regulation Authority's (PRA) consultation paper on its draft supervisory statement 'Solvency II: Remuneration Requirements'. The IFoA's Life and General Insurance Boards have contributed to this response.

**General Comments**

2. We welcome the clarity the draft statement will provide in respect of Article 275 of the Solvency II (SII) Directive. This should make it easier for firms to comply with the Directive. In particular, we appreciate the structure of the statement in setting out what is expected in the key areas of:

- SII Staff;
- Deferral of Pay Requirements; and
- Performance Measurement.

3. We support the application of this statement to Category 1 and 2 firms only. We believe this is proportionate. However, the clarity of the statement should also be beneficial for firms, to whom it does not apply, by expressly stating matters those firms could usefully consider.

4. We expect the provision of a template will be helpful for many firms understand how they should meet the statement's requirements.

**SII Staff**

5. The clarification provided as to which individuals will be in scope is very useful. Given the work that firms will already undertake for the PRA, linking the categories of members covered by the statement to the Senior Insurance Manager Function (SIMF) and the Key Function (KF) holders simplifies the requirements for firms. Including Material Risk Takers (MRT) in the definition is sympathetic to the requirements of the Directive. Setting out the key factors to consider (3.6 of the CP) should prove useful in identifying a firm's MRTs.

**Deferral**

6. The IFoA recognises the value of including Long Term Incentive Plans in the definition of deferral. This will permit the continuation of many existing pay structures.

7. Given the consistency of language between the text of the CRD and SII, determining a consistent proportion of remuneration (40%) as “a substantial portion” is a sensible approach. This will be particularly useful for groups that have firms operating the separate directives.

8. We also welcome the clarity of the bonus malus requirement. We would request the PRA to clarify whether it had considered payment of deferred bonus in company shares to include a form of malus, following falls in share prices as a result of poor experience. In such cases, the payment to individuals would already be lower.

**Performance Measurement**

9. The IFoA recognises the value of measuring performance on a balanced scorecard. This will ensure that firms will include all factors, not just financial factors, when rewarding individuals.

10. As with our comments on deferral, we support the consistency with banking and asset management firms on dis-applying the deferral requirements. We would view the 33% threshold for variable remuneration for those with total remuneration under £500,000 as a practical proportion.

11. Should you wish to discuss any of the points raised in further detail please contact Philip Doggart, Technical Policy Manager (Philip.Doggart@actuaries.org.uk / 0131 240 1309) in the first instance.

Yours sincerely,

Colin Wilson
**President-Elect, Institute and Faculty of Actuaries**