



Institute
and Faculty
of Actuaries

Proposals for the introduction of new Actuarial Profession Standard G1: The Chief Actuary in Non-Life Insurance

Consultation feedback and responses

Regulation Board

15 January 2016

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1. INTRODUCTION

I am pleased to introduce this summary of the feedback received in response to the Institute and Faculty of Actuaries' (IFoA's) proposal to introduce a new Actuarial Profession Standard (APS) which sets out the regulatory requirements for members carrying out the statutory role of Chief Actuary for UK authorised general insurance companies and Lloyd's syndicates (to be known as APS G1: The Chief Actuary in Non-Life Insurance).

APS G1 essentially supports the IFoA's decision to introduce a compulsory practising certificate for IFoA members who are approved as "Chief Actuary" in non-Life undertakings. APS G1 will come into force on 1 January 2016 to coincide with the implementation of the Solvency II Directive.

This response document corresponds with the questions which were asked in the survey accompanying the consultation. For questions numbered 13 onwards, we have set out each question in full, along with the relevant substantive comments made by respondents to those questions. We have not published confidential comments in this document. The Working Party, has, however, considered these comments in making amendments to the original draft.

We are extremely grateful for the care and attention shown by all respondents in preparing their comments on the proposals and in attending the consultation meeting held in London. We would also like to thank the Financial Reporting Council, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) for their useful observations and comments throughout the development of APS G1. Although not listed as official respondents to the consultation, their input was received through informal and formal discussions and considered alongside the other responses in shaping the final version. I hope you will find this summary of the feedback received both useful and informative.



Desmond Hudson
Chairman of the Regulation Board
15 January 2016

2. THE CONSULTATION PROCESS

The consultation period commenced on 7 September 2015 and closed on 4 November 2015. Members were invited to respond to an online questionnaire or to submit written comments to the IFoA. We also invited key stakeholders with an interest in this area to comment on the proposals.

We invited members and interested stakeholders to attend consultation meetings on 28 September 2015 in Edinburgh and 30 September 2015 in London to discuss the proposals and provide feedback. Thirteen people attended the meeting in London, however the meeting scheduled to take place in Edinburgh was cancelled due to insufficient interest.

During the course of the consultation period, the IFoA received a total of 13 responses:

- 12 responses via a Survey Monkey questionnaire, and
- 1 response via the APS G1 mailbox.

A summary of the key issues arising from the responses is set out in section 3 below.

3. THE PROPOSALS AND A SUMMARY OF THE RESPONSES

3.1 Following the IFoA's decision to require IFoA members who are approved as "Chief Actuary" under the PRA's Senior Insurance Managers Regime in both Life and non-Life undertakings to hold a practising certificate, it was necessary to incorporate this obligation into an Actuarial Profession Standard (APS) to ensure the requirement is enforceable. This is similar to the approach taken in relation to other practising certificates, for example APS L1: Duties and Responsibilities of Life Assurance Actuaries already requires Actuarial Function Holders, With-Profits Actuaries and Reviewing Actuaries to hold the relevant practising certificate.

3.2 The main issues raised during the consultation, together with responses to these, are as follows:

3.2.1 **Issue:** It was questioned whether those required to hold a practising certificate should: (a) include those to whom the function is outsourced; and (b) extend beyond those who will be approved as Chief Actuary by the PRA (i.e. where a Chief Actuary relies on an outside expert, should a member providing that expertise be required to hold a practising certificate).

Response: Regulation Board's decision following earlier consultations was that the IFoA will require all members who are approved as Chief Actuary by the PRA to hold a practising certificate. Where the function is fully outsourced to a member, that member will require approval as the Chief Actuary by the PRA. Therefore the requirement to hold a practising certificate should extend to that member. It was decided, however, that where a Chief Actuary merely relies on outside experts, the IFoA will not require any member on whom a Chief Actuary relies to hold a practising certificate.

3.2.2 **Issue:** The proposed standard required a member who is a Chief Actuary to "use his/her judgment to decide which risks need to be monitored, and the frequency with which they should be monitored". It was suggested during the consultation that this requirement went beyond the requirements imposed on a Chief Actuary by the Solvency II Directive, which provides for a separate risk management function.

Response: We have removed this provision as there was no intention to impose obligations beyond the requirements of the Solvency II Directive in relation to risk management.

Issue: It was raised that the APS repeated obligations which either the PRA or IFoA already imposed on members acting as Chief Actuaries.

Response: We have removed some references to obligations which were merely repeated without adding anything further. In particular the purpose of paragraph 3.5 relating to the contravention of TASs was questioned and this provision has been removed.

3.3 Following receipt of feedback, we revised the draft APS G1 to reflect the above and to clarify the meaning in some instances. The appendix to this document shows the differences between the initial draft of APS G1 and APS G1 as published on 1 December 2015.

4. DETAILED RESPONSES AND COMMENTS

Question 1: About you

Answered: 13 / Skipped: 0

Answer Options	Response Count
Name	13
Name of Firm	13
Position held	13

Question 2: Are you a member of the Institute and Faculty of Actuaries?

Answered: 13 / Skipped: 0

Answer Options	Response Count
Yes	12
No	1

Question 3: Do you want your name to remain confidential?

Answered: 13 / Skipped: 0

Answer Options	Response Count
Yes	9
No	4

Question 4: Do you want the name of your organisation to remain confidential?

Answered: 13 / Skipped: 0

Answer Options	Response Count
Yes	11
No	2

Question 5: Do you want your comments to remain confidential?

Answered: 13 / Skipped: 0

Answer Options	Response Count
Yes	6
No	7

Question 6: If you are a member of the Institute and Faculty of Actuaries, which category of membership do you hold?

Answered: 13 / Skipped: 0

Answer Options	Response Count
Student	0
Affiliate	0
Associate	0

Fellow	13
Honorary Fellow	0
Student Actuarial Analyst	0
Certified Actuarial Analyst	0

Question 7: If yes, what is your primary practice area? (If more than one, please indicate all that apply)

Answered: 12 / Skipped: 1

Answer Options	Response Count
Life	1
General Insurance	12
Pensions	1
Finance and Investment	1
Enterprise Risk Management	0
Health and Care	0
Education	0
Retired	0
Other	0

Question 8: Do you hold a Practising Certificate issued by the Institute and Faculty of Actuaries?

Answered: 13 / Skipped: 0

Answer Options	Response Count
Yes	2
No	11

Question 9: If yes, which area of practice does it cover?

Answered: 2 / Skipped: 11

Answer Options	Response Count
Pensions	1
Life	1
Lloyd's	2

Question 10: What type of organisation do you work for?

Answered: 12 / Skipped: 1

Answer Options	Response Count
Actuarial Consultancy	2

Life Insurance Company	0
Non-Life Insurance Company	9
Lloyd's Managing Agent	5
Bank	0
Investment Firm	0
Other	0

Question 11: If your organisation is an actuarial consultancy, what is the size of your organisation?

Answered: 5 / Skipped: 8

Answer Options	Response Count
Sole practitioner	0
2-10 Fellows or Associates	0
11-25 Fellows or Associates	0
26-40 Fellows or Associates	0
40+ Fellows or Associates	1
Not applicable	4

Question 12: Do these comments represent your own personal views or your organisation's views?

Answered: 13 / Skipped: 0

Answer Options	Response Count
Personal views	12
Organisation's views	1

Question 13: Do you have any comments on the requirements and provisions of the draft APS G1?

Answered: 12 / Skipped: 1

Answer Options	Response Count
Yes	8
No	4
Comments	
<p>We do not see that the Chief Actuary needs to have a practising certificate when he/she is a member of the IFoA but is supported by an External Actuary to whom the responsibilities are outsourced. Given that to perform the Chief Actuary role an individual must meet the requirements of both Solvency II and the PRA having to also have a Practising Certificate is an additional cost with at best a marginal benefit to the Chief Actuary's employer. The requirement for a Practising Certificate may put IFoA members at a disadvantage compared to non IFoA members who could fulfil this role. Also it could lead IFoA members to cease to be a member of the IFoA to avoid the extra costs (both time and money) involved in obtaining the Chief Actuary Practising Certificate. This is particularly relevant to non-life insurers where prior</p>	

to Solvency II there was not a requirement for there to be an Actuarial Function and where the equivalent of the Chief Actuary role may currently be fulfilled by experienced non actuaries.

It is not clear to me what roles you need to be performing in order to need a chief actuary. I think this needs to be a clearer definition of this with APS G1

I am not sure of the purpose of this APS. The consultation states that it is needed to accompany the new Chief Actuary PC. However there is no APS for the existing Lloyd's SAO PC. This APS appears to summarise the rules and regulations that Chief Actuaries should already be aware of and following, plus a few other odd paragraphs (see below).

Question 14: Do you think that any additional obligations for Chief Actuaries should be included in APS G1? If so, please provide details?

Answered: 12 / Skipped: 1

Answer Options	Response Count
Yes	2
No	10

Question 15: We appreciate that there will be certain organisational arrangements which fall outside of the norm. Please tell us of any other arrangements which you think should be covered by a Chief Actuary Practising Certificate.

Answered: 6 / Skipped: 7

Comments
It is not clear to me what is covered.
Chief Actuaries in Insurance Groups may be working with Chief Actuaries in subsidiary companies. To what extent can the former rely on the letter?
None

Question 16: Do you think the obligations of Chief Actuaries are clearly set out in APS G1?

Answered: 12 / Skipped: 1

Answer Options	Response Count
Yes	9
No	3
Agree	Comment
Yes	The meaning of paragraph 3.4.2 is unclear. Although Article 48 requires Actuarial Functions to contribute to Risk Management, this paragraph could be interpreted very widely and could leave the Chief Actuary being forced into the space occupied by the CRO. The purpose of paragraph 3.5 is unclear. The first sentence appears to cover all forms of actuarial work. However the second sentence implies that the first sentence only covers Technical Provisions, which seems odd. It also seems odd for this note to permit Actuaries to contravene the Handbooks and TAS, albeit they are then required to notify the regulators. (What is the requirement if a TAS has been contravened?).

Question 17: Do you think it would be helpful to have any further guidance and/or training opportunities in this area?

Answered: 11 / Skipped: 2

Answer Options	Response Count
Yes	9
No	2

Question 18: If so, what should this guidance/training include?

Answered: 10 / Skipped: 2

Answer Options
Comments
Specific CPD events organised for holders of Chief Actuary's Practising Certificate.
Who needs the Practising Certificate
A seminar specifically for Chief Actuaries to discuss the implementation and practical examples.
Report production. How to reconcile level 2 requirements with FRC standards.
A commitment by the IFOA to review the cost/benefit of this PC regime after 1 year.

Question 19: Do you have any other comments on the proposals or wish to add anything to inform our thinking?

Answered: 12 / Skipped: 1

Answer Options	Response Count
Yes	2
No	10

5. LIST OF RESPONDENTS TO THE CONSULTATION*

Individual respondents to the consultation

Nicholas Line
Anthony Pepper
Dix Roberts

Organisations which responded to the consultation

Association of Consulting Actuaries (ACA)
Markel International

** Only those who indicated that they did not wish to keep their name or organisation confidential are listed.*

6. APPENDIX



APS G 1: THE CHIEF ACTUARY IN NON-LIFE INSURANCE

Author:	GI Board
Status:	Approved under the Standards Approval Process
Version:	1.0, effective 1 January 2016
To be reviewed:	No later than 31 December 2016
Purpose:	To set out the requirements for actuaries carrying out the statutory role of Chief Actuary for UK authorised general insurance companies and Lloyd's syndicates and the relationship between them and the Members who support those role holders.
Authority:	The Institute and Faculty of Actuaries
Target Audience:	Chief Actuaries appointed by or in respect of UK authorised general insurance companies and Lloyd's syndicates and Members who support those role holders.

General Professional **Obligations:**

All **Members** are reminded of the Status and Purpose preamble to the Actuaries' Code which states that the Code will be taken into account if a **Member's** conduct is called into question for the purposes of the Institute and Faculty of Actuaries' Disciplinary Scheme. Rule 1.6 of the Disciplinary Scheme states that misconduct:

"means any conduct by a Member...in the course of carrying out professional duties or otherwise, constituting failure by that Member to comply with the standards of behaviour, integrity or professional judgment which other Members or the public might reasonably expect of a Member having regard to...any code, standards, advice, guidance, memorandum or statement on professional conduct, practice or duties which may be given and published by the Institute and Faculty of Actuaries and/or ...the [FRC]."

Members are required to comply with all applicable provisions of **APSs**. In the event of any inconsistency between this **APS** and the Actuaries' Code, the Code prevails.

Use of the words "must" and

“should”:

This **APS** uses the word “must” to mean a specific mandatory requirement.

In contrast, this **APS** uses the word “should” to indicate that, while the presumption is that **Members** comply with the provision in question, it is recognised that there will be some circumstances in which **Members** are able to justify non-compliance.

1. Introduction

- 1.1. In this **APS**, requirements of legislation or of **PRA** rules and expectations are specifically referred to as such.
- 1.2. The responsibilities of ~~a~~**Members** to whom this **APS** applies are central to the financial soundness of the general insurance business of the **Firm** in respect of which the **Members** ~~acts~~. **Members** who support **Chief Actuaries** should be aware of a **Chief Actuary’s** responsibilities when assisting them.
- 1.3. **Members** must not accept an appointment as **Chief Actuary** if they do not have the necessary skill and experience to perform that function. ~~Similar considerations apply within the PRA rules applying to the Senior Insurance Managers Regime.~~
- 1.4. Before taking up an appointment, **Members** must ensure that the relevant requirements of the Actuaries’ Code have been met, including the need to consider a discussion with their immediate predecessors, if any.
- 1.5. **Members** must communicate clearly to their principal the perspective from which they are providing advice. Specifically, **Members** must clearly indicate whether advice is ~~being~~ provided ~~from the perspective of compliance to comply~~ with statutory or regulatory obligations or as an employee, director or external adviser.

2. General ~~o~~**Obligations**

- 2.1. For a **Solvency II Firm** which is authorised in the UK, and for a Lloyd’s syndicate, **Chief Actuaries** are subject to the **PRA’s Senior Insurance Managers Regime** and must be familiar with the obligations this imposes on them.
- 2.2. Rule 3.1 of Technical Provisions in the **PRA Rulebook** requires the best estimate be calculated using “adequate applicable and relevant actuarial and statistical methods”. Those performing the role of **Chief Actuary**, or **Members** advising such role holders, must act in line with this requirement.
- 2.3. ~~Wheref~~ a **Member** adopts a practice which ~~is significantly different~~ ~~varies~~ from non-mandatory generally accepted actuarial practice, ~~they must consider whether to disclose the variation along with the reasons for the practice actually adopted. then the~~ **Member** ~~must~~ ~~must~~ disclose the reasons for the practice actually adopted ~~where the difference in practice produces significantly different results, whereas an item which is trivial in its effect may not merit disclosure. In this context “significant” refers to the effect of the practice on the results. A major difference in practice on an item which is trivial in its effect is not significant for this purpose.~~
- 2.4. **Chief Actuaries** who are **Members** are required by section 344 of the **Act** to communicate

particular matters to the relevant body (the **PRA**), and other matters as required by the **Regulations**. The requirements under section 344 are to notify the relevant body (the **PRA**) without delay:

- 2.4.1. when they resign;
 - 2.4.2. when their appointment is terminated or not renewed; or
 - 2.4.3. of any matters connected with the cessation of their appointment which they think ought to be brought to its attention, or that there is no such matter.
- 2.5. **Chief Actuaries** who are **Members** are required by **PRA** and **FCA** conduct rules to disclose any information of which the **PRA** or **FCA** would reasonably expect notice.

3. The Chief Actuary

3.1. ~~Members who are Chief Actuaries must hold either a Chief Actuary (non-life without Lloyd's) Practising Certificate or, for a Chief Actuary within the Society of Lloyd's or a Lloyd's managing agent, a Chief Actuary (non-life without Lloyd's) Practising Certificate if they are Members. In the case of Chief Actuaries who are Members performing this function within the Society of Lloyd's or a Lloyd's managing agent, they must hold the Chief Actuary (non-life with Lloyd's) Practising Certificate.~~

3.2. ~~Where a Firm does not have the internal capability to provide the actuarial function and appoints an external actuary to do so who is a Member, then that actuary must hold a Chief Actuary (non-Life with Lloyd's) Practising Certificate or a Chief Actuary (non-Life without Lloyd's) Practising Certificate and the requirements of the rest of this APS apply to that actuary.~~

~~3.3.2. When accepting appointments as Chief Actuaries, Members must ensure that they have the right to present a report to the Firm's Governing Body in person, although they may choose not to exercise this right on a case by case basis, should they deem the report sufficiently important.~~

~~3.4.3.3. Chief Actuaries who are Members must ensure, both at the time of the appointment and thereafter, that they have sufficient information and resources and access to information to fulfil the requirements of their role, including conducting such enable the necessary investigations to be carried out, and the opinions to be provided as may be necessary both at the time of the appointment and thereafter; and use their judgment to decide which risks need to be monitored, and the frequency with which they should be monitored, and advise the Firm accordingly.~~

~~The information required, and the frequency of monitoring, will depend on the nature of the business carried out by the Firm.~~

~~3.5 If a Firm requires a Member to produce work which the Member believes conflicts with the requirements in~~

~~the Handbooks and/or a TAS, the Member may do so provided that the work clearly and unambiguously states that the Member has done so under instructions and that the work does not conform with the requirements in the Handbooks and/or the TAS(s) as applicable. The adoption of such resulting technical provisions will create a situation where the Member producing the work will be required to report the matter to the relevant body (the FCA and/or the PRA, as appropriate) in accordance with the Regulations and with the conduct rules of the PRA and the FCA.~~

4. Possible conflicts of interest

4.1. **Chief Actuaries** who are **Members** are reminded of their obligations under **PRA Rulebook provisions** *Solvency II firms - Actuaries 6*, **and** *Non-Solvency II firms - Actuarial Requirements 8*, ~~and~~ Article 258(5) of the Solvency II Delegated Regulation, and the Actuaries' Code in relation to objectivity and conflicts of interest.

5. Definitions

Term	Definition
Act	Financial Services and Markets Act 2000 as may be amended from time to time
Actuarial Function	The function F12 in the table of PRA controlled functions.
APS	Actuarial Professional Standard
Chief Actuary	The person appointed to have responsibility for the Actuarial Function in any of: <ol style="list-style-type: none"> 1. the Society of Lloyd's, or a Lloyd's managing agent; 2. a non-Life UK Solvency II firm; 3. third country branch undertakings which are required by the PRA to appoint a Chief Actuary; 4. insurance special purpose vehicles which are required by the PRA to appoint a Chief Actuary
Chief Actuary (non-Life with Lloyd's) Practising Certificate	A certificate issued by the IFoA on application by a Member who wishes to hold a Chief Actuary (non-Life with Lloyds) position
Chief Actuary (non-Life without Lloyd's) Practising Certificate	A certificate issued by the IFoA on application by a Member who wishes to hold a Chief Actuary (non-Life) position
FCA	Financial Conduct Authority (or its successor)
FCA Handbook	The handbook issued by the FCA
Firm	An insurance company or Friendly Society in respect of which the actuary is appointed

