



Institute
and Faculty
of Actuaries

Actuarial Monitoring Scheme Consultation Meeting

Staple Inn Hall, High Holborn, London

17:30-19:00, 24 July 2018

The Chair (Desmond Hudson, Chair of the IFoA Regulation Board): Good evening everybody. Welcome to this meeting in relation to the Regulation Board's consultation proposals. Without further ado then, let's turn to the business of the session. As you all know, this is the second of the consultation meetings, of a series that we're holding between London and Edinburgh. Tonight's focus is intended to be pensions. That does not mean that I'm not going to take questions on anything other than pensions, but as I say, there's a focus tonight around pensions. Last night was insurance. And we're going to start the evening with two crisp presentations, which are intended to stick to time to maximise the amount of time for your comments and contributions. First of all my colleague Ben Kemp: to set some context/some overview of the proposals. I'll then ask Jane Curtis to speak to you, who will talk about, as it were, the implications from a practitioner perspective and part of the rationale from a practitioner's perspective of this proposition. Ben?

Ben Kemp (IFoA Director and General Counsel): Thank you very much Des. Thanks everybody. Good evening. Nice to see you all here on this balmy evening. Okay. Alright. Without further ado, I am, as Des says, hopefully crisply, going to give you an overview or a short form summary of what, in fact, is set out in more substance and detail in the Consultation Paper: a little bit of an overview. Jane, I think, is then going to give you something of a practitioner's perspective on the proposals, then we move to the more substantive, if you will, part of the evening, which is the discussion where we welcome your input/comments/contributions/questions.

Very briefly, probably trite to state, but worth recalling that, we are, at the IFoA, a Royal Charter body with a remit under that Royal Charter to regulate, amongst other things, the actuarial profession. And, we do so as it states in the Charter, in the public interest, and in trying to deliver/to discharge that responsibility our aim is to uphold and demonstrate standards/high standards/appropriately high standards of technical competence and ethical behaviour. We aim to achieve that in collaboration, if you will, with our oversight body, the Financial Reporting Council [FRC] which has a specific responsibility, also, for technical standards. We produce professional ethical standards, important where they demonstrate something here about being able to command public confidence in the profession and thereby uphold the reputation of the profession. A key part of our remit, as we see it, on behalf of you as the Members.

Rationale for the proposals - the problem, if you will, that we're trying to solve, the question we're trying to answer, currently - we do a range of things in discharging our regulatory remit -we do not, however, have as such, any facility by which to monitor the quality of Members' work. That means that we arguably have a gap in terms of the information available to us. The information available to us in particular about whether Members are, in practice, achieving the standards that we expect and our Members expect of themselves: whether in fact our standards are being complied with. Are those standards being effective? Are we actually producing standards that Members are being able to comply with, and we're actually proving to be useful in terms of the outputs that Members are producing in their work? We don't have that direct information. That is a key, gap, we think, in our regulatory framework. The proposals, as formulated, are intended to, therefore, enhance the information available to us.

I will come shortly as to what purpose that will serve. But, it's important to emphasise at this point that we are not responding to a specific crisis or a specific lack of confidence or identified problem with the quality of the work of our Members, *per se*. We have every reason to be confident in the standards that are being maintained, but we lack empirical evidence of that. We lack information which will inform that conclusion. And that also in a context, of course, of ever-growing public scrutiny of the professions, not least and in particular of the financial services sector. And therefore, arguably an increasing risk, and a risk because of the lack of information available to us to inform the way in which we regulate, and also, because of the risk, if you will, to our collective credibility as a professional regulator/professional body and as a profession if we are not doing something to address that gap: the gap in relation to an absence of some form of effective monitoring. That's my attempt to articulate the question the 'exam question', the problem we are attempting to solve.

If one accepts that as a proposition, the question becomes: "so, how do you address it and how do you address it effectively, pragmatically". How do you address it in a way which is relevant and purposeful for the actuarial profession? And, that's specifically what we're trying to do. We've drawn on examples of monitoring elsewhere, across the professions in the UK, and there are many of them, and they are done in different ways. We have looked at examples of different practice, but we have, specifically, tried to come up with something which is specifically, and we think, bespoke and appropriate for the actuarial profession. What we're trying to do is, as it says on the tin, is to introduce an enhanced system to gather information about the work being carried out by our Members, to be able to allow us to be able to provide evidence, actuary-specific evidence, of the quality of the work that our Members are producing. To enable us to better promote best practice, to provide recommendations and feedback, both individually and collectively, to drive improving standards, and to enable us to be better informed in the way in which we develop and adapt our own outputs as a professional body, whether those be in terms of training, education, standards, and guidance, to better ensure that those are relevant and effective for our Members and for the public that we all serve.

Now, I mentioned the challenge then, of how do we come up with something that is sensible and proportionate. That is a serious and challenging question, being frank with you, and it's one that we have been wrestling with for some time, and this is where we need your help. We're looking for your help through the consultation. We've set up a proposal which we think is workable and sensible, but no doubt it will benefit from your, and your colleague's, views. We've tried to come up with something which is both risk-based and proportionate. It's not a one-size-fits-all. In fact, we've come up with three different types of monitoring, three categories of monitoring - Category A being the most intrusive, if you will, the most regulatory in that sense. Category C, perhaps, being the least - varying in their focus and their scope.

Talking about Category A first, this is where we are proposing an element of Direct Review of actuarial work on a regular basis, with a focus on Practising Certificate roles [PC] - I'll come back to the rationale for that in just a moment - A Direct Review of the work being undertaken by Practising Certificate holders periodically in their capacity as Practising Certificate holders. Category B, much broader in scope but less intrusive and less burdensome: Thematic Reviews we would undertake on a regular and *ad hoc* basis according to issues that we identify from time-to-time from information available to us from you/from practice boards/from other regulators. And then, Category C: a more broad sweep range of information-gathering, less regulatory activities, but surveys/focus groups/that sort of thing. The sort of thing we actually already do to some extent, but in a more structured and systematic way. So, ABC, the ABC of monitoring as we are proposing it.

If you look at Category A firstly then, just in a little more detail. We're focussing on Practising Certificate roles. The rationale for that is that these are roles which have been identified, to one extent or another, by legislation or regulation, as having some particular public interest importance. Now, one can argue about that, whether those are the correctly defined set of roles. Nonetheless, those are the ones that we have recognised, because they are recognised in legislation, or given prominence in legislation or regulation. And those may, as we continue to review the Practising Certificates regime,] if the Practising Certificates regime were to change, we were to remove Practising Certificates or to add to them, (we don't have immediate plans to do that, but over time) may alter the types of role which are caught within Category A, but the point is we're focussing on these very significant individual roles. We're trying to be risk-based in our approach and this is set out in more detail in the Consultation Paper, so that we will, in considering the frequency and intensity of the review undertaken, how often they're happening, how long those

reviews take when we're looking at reviewing work of individual Practising Certificate holders, we will look at what other, if you will, mitigations or relevant considerations there are, which we should take into account. One of those, which is particularly relevant for pensions, Scheme Actuaries, and potentially for this audience is whether or not you are part of an organisation which is QAS accredited. If you are within a QAS accredited organisation that (although QAS accreditation is targeted at a higher level of professionalism within the overall systems and structure of the organisation) there is some, I think, considerable comfort that we can take from that and from the way our understanding of the organisation in which you work, which allows us then to take a slightly lighter approach, if I may put it like that, to the intensity and the frequency of the monitoring we would be doing. Secondly, practically, we can benefit from the review visits that are already being undertaken as part of the QAS programme and, in effect, do the monitoring at the same time, so there is a proposal that we would take account of that QAS accreditation and that as a result, the monitoring would be less intense/less frequent, for people within QAS organisations. And, we will be able to take account of other forms of the extent that you are within an organisation which is subject to internal audit or other forms of regulatory monitoring. Maybe less applicable in a pensions context, as opposed to insurance, we would take account of those considerations, also, in determining the appropriate intensity and frequency of the monitoring.

Okay, Category B, let me speak very briefly about this. These tend to be evidence-based studies. You'll be familiar with Thematic Reviews, broader in scope, but less intensive in that-, in that-, in a-, certainly on an individual and individual organisational level. Category A monitoring will, in effect, as proposed, be a condition of holding a Practising Certificate. Category B monitoring Thematic Reviews, we will be looking for the cooperation of individuals and their employers to help us, to work with us, in undertaking reviews of this sort and we will do everything we can to, for example, protect identity/to anonymise information where that's appropriate. And the Consultation Paper is – I'm not going into a lot of detail here, but the Consultation Paper sets out in some detail some of the steps we would take to protect commercially sensitive information.

Category C: a broader suite of information-gathering activities, including questionnaires, surveys, analysis of insight share by other regulators, maybe scheduled and *ad hoc*. I think that, as I've mentioned, to some extent, we do some of this sort of activity on an *ad hoc* basis already. The idea is that it'd be much more structured, and that there would be a coordination, if you will, between the different categories of monitoring. So that information we may gather through Category C, through a survey, for example, if that were to disclose the basis for a concern, that might lead to a Thematic Review under, under Category B. so we have a potential escalation route, enable us to be proportionate in the steps we're taking, but also to escalate or deescalate through the-, through the categories.

I've used the word 'proportionate' on a number of occasions. The idea is that we would be - what we're trying to achieve is something which addresses the problem I set out at the beginning: the need for some form of monitoring, some way of improving the information, the regulatory information available to us. To do so in a way which is effective, which is sufficiently rigorous and robust, so as to command the confidence of the public, but which is also proportionate. And, we have the advantage, we think, of a profession-led regulatory regime, which allows us - gives us the opportunity in any event - with your help, to tailor something which really works for the profession and addresses the question that we're posing. And, that's the challenge, robust but appropriately targeted and proportionate. That's what we're trying to do, and the scope of the proposals is, as you've seen, broad, but to the extent that it is intrusive it is quite narrowly focussed around those Practising Certificates roles.

Benefits of all of this: very briefly, again, set out in the Consultation Paper. We think this will help us significantly in improving the effectiveness of actuarial regulation. It will give us significant ability to have a better understanding of the way in which our Members are producing work, the extent to which standards, *etc.*, are being complied with, to the extent that there are learning needs, or needs for more guidance, or less guidance, whether some of our standards are effective or ineffective, and to address those so as to tailor our regulatory framework better in light of that information. And, as a result, to better command the confidence of the public, and reinforce our public reputation. At the same time, to enhance through Category A monitoring, the credibility of the PC Scheme. If you look at the PC Scheme at the moment, we think it has been effective in so far as it goes, but we are reliant on, if you will, a considerable element of self-certification of experience at the moment. This will give us the ability, actually, from time to time, proportionately, to look at the quality of actual work being done in these important roles.

We'd like to think that this is a model, a proposal, which is designed for the profession by the profession. It's an opportunity to do that, and again, hence the call for your help and engagement. We believe in the model of accountable self-regulation and that this is a model which, and I say accountable, it's not pure self-regulation quite, properly it's accountable self-regulation subject to oversight. That model will enable us to address this question in a way which would be effective, we hope. Monitoring will enable, and this is perhaps something which I should have emphasised earlier, because I think this is very important, it will enable the mechanism for feedback to our Members. It will enable a Member mechanism for individual feedback, private individual feedback. But also collective/generic feedback to the profession where we are identifying issues, and hopefully able to pre-empt issues, that might become more serious were they allowed to escalate. And potentially one of the ways in which we hear, one of the only ways in which we hear, currently, about concerns is through disciplinary complaints. The aim through monitoring is actually to pre-empt some of those issues which might otherwise escalate to a disciplinary situation: to generate through this regime a culture, a system, of ongoing reinforcement and continuous improvement.

Clearly, we accept and understand there will be an impact to these proposals. There's an impact from everything we propose, just like any other professional body proposes or any other regulator proposes. We're trying very hard to ensure that is a proportionate impact in the way I've described, and in terms of the way we've structured it. I think the most significant impact will be the time in involving and engaging with these proposals, and in being subject to review, and the challenge for us is in ensuring that those are periodic reviews and undertaken in a sensible way. And, I think particularly for those within a QAS framework there's a ready mechanism for us to be able to deliver that in a practical way.

In terms of cost, how we're funding this, that's dealt with in the Consultation Paper. We are not, we have no immediate proposals, or need to raise subscriptions or PC fees in order to implement the proposals as described. We do review subscriptions and PC levels every year, as you'll be aware, and we publish our financial statements. The proposals, as proposed, would be part-funded by the FRC, as well as by the IFoA, from existing revenue streams, and with that, without further ado, Jane.

Jane Curtis (Member of the Actuarial Monitoring Scheme Project Board): Right, so this is a personal view based very much on my involvement as a frontline practitioner in the pension's field, with this project, and for the avoidance of doubt, I do fall into the Category A monitoring bit, so I'm going to experience this first-hand.

About what's happened: now, some of us, and that would be Des and Ben, and myself, have actually been working on this project now for three years and at times it has been exceptionally challenging as we've been endeavouring to gather ideas, opinions, and feedback from a broad range of stakeholders, not all of whom, it has to be said, have been supportive, or indeed wanted to engage with us, on the subject. And, that's not very helpful, really, to us a profession, when we really are trying to ensure that the proposals are practical, effective, and proportionate.

Now, some of those we've engaged with have included, well: the Project Board. So, some of us were working very hard on developing the proposals for two years and then when we got them to a stage where we were ready to start thinking about implementation the Project Board came about, and then that was then staffed with more practitioners who could really challenge where we were landing). We've also consulted extensively with the IFoA's various Boards, (Pensions Board, for example, GI [General Insurance], Life) some of who have been, again, a little bit more engaged with it and some have found it quite challenging. As well as [the IFoA] Council we've also engaged with various focus groups as well, across the practice areas, around what we were doing, and last but not least, we've consulted very, very extensively with all the various regulators, so that would be the FRC, the FCA [Financial Conduct Authority], the PRA [Prudential Regulation Authority], and, and Lloyd's [Lloyd's of London] itself.

Now, during this various consultation that's gone on over a much extended period one of my questions, particularly for the regulators, was: could they not actually do more to complement their existing roles in the whole supervisory area? Wouldn't that make a lot more sense than us taking it on ourselves? Would that not be more cost-effective? So, for example, in the area of pensions, we've got The Pensions Regulator [TPR] who collects vast amounts of information across thousands of schemes. Are they not in a position to better assess the quality of the actuarial work through that information they get? Similarly, with the PRA, thousands of interactions, particularly with the Category 1 insurers are they not better placed to

assess the quality of actuarial work? And, indeed, we've got various colleagues within the profession, who are supporting the audit of insurers, again, could not their role be extended to cover some of that work? We found through many of these consultations with these regulators were somewhat reluctant to extend their regulatory remit, and so, that's really why we've got the proposals that we have before you today and in the Consultation Paper, really it's because we've exhausted all the other areas.

Now, our interactions with the regulators though: one of them did give us some great evidence to support our direction of travel, and this is an example, courtesy of Jerome, here: where statements of actuarial opinion were all subject to, or started to be subject to, review back in 2005. Those reports, statements of opinion, were scored against the standards and each one was given a score and you will see during the period over which there was a full review of those statements of opinion the average scores gradually increased and what they found is that although people were very sceptical about that review initially, after a period of time, people actually welcomed what was going on. You'll see as well, from that chart there, that once the heavy/the full review ceased there was just a light-touch review, how the scores plateaued. So, that was an example that we found, that review and feedback really worked and in terms of improving the quality of the actuarial work and the standards.

Now, some of you are probably sitting there thinking "should I be really worried," you know, should you as a frontline practitioner be worried about the proposals that we put here? So, perhaps you might want to ask yourself a question: "have you got anything to hide," "have you got the time to be doing this," "does it create confidentiality problems for you and your clients," "how are you going to explain this to your firm about what's going on," and "do you think it actually makes sense". I would hope that none of us have got anything to hide and that all our work anyway is scrutinised in some respect, whichever regulatory regime we fall under. Have you the time? Well, many of us undergo internal peer review, (inaudible) reviews, whatever you might like to call them, so we've already got an extensive peer review system internally in many organisations, and that's borne out by the QAS accreditation that we found, it goes above and beyond what the profession's requirements are. So, I for one, I'm really quite happy to: welcome external peer review; validate what else I'm doing and give me a great perspective on the work I do. Confidentiality is clearly an issue which we're going to deal sensitively with, and so perhaps there are some issues around that, but you know, other regulators (inaudible) across this, and they have huge information requests, particularly the PRA, the FCA of the insurers, so if they can do it I'm sure we can come up with something that will protect that confidentiality. How do I explain this to my firm? Again, I think that the benefits for them are very much similar to the personal benefits in terms of external validation and I would hope that they would embrace it, and I think that what we have proposed here does make sense. It is proportionate.

So, perhaps, just looking specifically at that issue about whether or not it is proportionate it's worth looking at a few stats here we wouldn't be actuaries, if we didn't look at stats, like lawyers! So, the Category A monitoring will only directly impact UK Practising Certificate holders only, so 7% of the UK Membership are Practising Certificate holders, that's not that much, is it? So, I think it does satisfy the 'tick' in terms of proportionate. Now, of that, 70% though of the IFoA Practising Certificate holders are Scheme Actuaries. So, it does you know-, if most of us here tonight are pensions, then it is going to impact proportionally more of us than, than our insurance colleagues, but nearly 80% of us are working for QAS accredited organisations. And, we do hope that the proposals will be less onerous for those organisations. One of the benefits of having that accreditation, so hopefully it will be more efficient and more streamlined, , there, and then of course, the other 30% of Practising Certificate holders are in-, are, are in the area of insurance. And, some of them, well, most of them are already going to be subject to a very high degree of regulation, whether it's from the PRA, the FCA, or, or, or Lloyds itself.

Now, we had quite a lot of debate about the extent to which this should be Direct Review. We landed on Practising Certificate holders, and making it mandatory for them, mainly because we felt that the work that they did probably covered most of the areas that were of concern, in terms of the public interest. I do think though, that we should be asking ourselves: have we gone far enough? A number of people, we know, will be sitting and thinking "well, we've gone too far on the Direct Review requirement," but equally, I think we should be asking, and challenging, ourselves "have we gone far enough" "have we got the balance". We think we've got the balance right, but would be very interested in your views on that. With the Direct Review, I think we'll be looking to make this as least onerous for Practising Certificate holders as possible, with your Review Visits on-site and interviews between the team and the Practising Certificate holder, and

the focus will be on key pieces of actuarial work. For those of us in the pension's field, you'd expect that to be around the valuation, the, the triangle valuation, probably work in relation to, say, factor reviews and that sort of thing. It'll be the big ticket items. The focus will be on the extent to which that work complies with the professional standards. It's not trying to give a second opinion on the results. It's not going to try and say "you got that wrong". It's much more around the process that you followed for getting there. How often might those review be? Well, it doesn't have to be every year. The duration or frequency of the review of the work would be dependent on the type of holder/the number of appointments you hold. Perhaps it might depend on whether some of those appointments, particularly in the pension's field, and for high-profile organisations, perhaps in the news, with the media, spotlight on them because of the particular work involved. It might depend whether, again, whether there was QAS accreditation, and the extent to which the work is subject to internal or external audit already. Or, perhaps if there have been some previous findings that where, perhaps, the Review Team had some concerns that might cause a review to be a bit sooner than might otherwise have been the case. We have given some illustrations of the frequency in the proposal document, but we haven't dotted every 'i' or crossed every 'T' on that - pending feedback on the main proposals.

Just turning now to the wider Thematic Reviews: I really do think this makes sense. There are a number of issues, particularly in the pensions field, where you know you sense there's an issue brewing underneath there, which needs/merits further consideration, perhaps. For example, terms on which pension is exchanged for tax-free cash at retirement, might be a particular issue. The way in which longevity assumptions are being derived at the current time. That stretches across pensions and insurance, but you know, there are some particular issues in the pension's field at the moment. We've got, perhaps, GI [General Insurance] pricing and reserving as other issues, where there's quite a lot of debate about the actuarial advice being given around those areas. And, we obviously have a more current topic, particularly given the heat in this room: actuarial advice on the impact of climate change. So, I think this is not rocket science. I think some of these Thematic Reviews could give rise to some really rich information, which could influence both education/guidance for all of us, new opportunities, and hopefully better outcomes for Members, and again, I would encourage you to think, if you were up here, and you were thinking about what Thematic Reviews you would ask for, well, I'd be very interested in your views on that.

So, what are we going to get from all of this? Well, I really touched on some of this already, but - and I think Ben did as well - so if you want - if you're a Practising Certificate holder you'll get a summary of the findings, but you'll get Best Practice Recommendations. It's really not out to do points scoring. It's all about raising standards for us all, across the board. The Regulation Board will get reports on themes emerging, and issues, and there will be some anonymised reports of high-level findings. Again, all of which can be used to improve education, continue with professional development and so forth, and hopefully, as I said, for the benefit of the users of our services.

Now, the point about you being here tonight is we're really anxious to hear from you. The Project Board and the Regulation Board recognise there may be alternative approaches. You know, we're not saying that we have got this right with these proposals. We are genuinely interested in your feedback and whether you think alternative options will work. We really do want to hear all your ideas and suggestions. This is a real chance to make a difference in this area, but please if you could be as constructive as - there is no good saying "well, I don't like that". We'd like you to say, "I don't like that, but here's a better option for you to consider". That would be really, really welcome, please, if you could do that. The consultation is open for responses until the end of 28 September and responses can be submitted online at the address showing up there on the screen. If you want to though, you can submit suggestions by email or post as well, but online submissions are encouraged, because it's easier for us to collate that feedback and to analyse it. It's going to make the team, the staff team, a lot happier with you on that.

The timeline that we're anticipating, hopefully, is that we collect all the feedback and analyse it over the period towards the end of the year and that hopefully we'll be in a position to finalise the proposals early in 2019 and looking to implement, if we can, in a phased way, probably from about May 2019 through to the end of 2020. Again, we're looking for all your suggestions and ideas around how best we might implement this and the phasing that would be appropriate. So, I think with that, I think we're ready for questions.

The Chair: Who'd like to go first? It's going to be a much shorter meeting than I anticipated. Right, down here on the right-hand side of the aisle. Thank you, sir.

Mike Shimwell: Hi, Mike Shimwell, KPMG. Just a thought that, focussing on PC holders is obvious, but I'm not convinced that the largest risks actually sit with PC holders. A lot of what we do is, as Scheme Actuaries, if not prescribed, fairly circumscribed, and I think that the greater risks probably sit in the wider work: harder to monitor because it doesn't have to be by actuaries. But we have got investment consultants. We've got investment actuaries. We've got corporate advisors, doing all sorts of things that probably, if we're going to monitor, regulating the public interest, we need to understand what's happening, how it's happening, and what's driving those issues?

The Chair: So, I suppose, Jane, perhaps if I could turn to you on that one. I guess at the heart of that: the Category A element of the proposition is going to impact predominantly on those UK Members holding a PC, even though, say, Category B/Category C may be less relevant, Category B much more widely, and that's maybe not the totality of the issue, I guess, is the point you're making.

Jane Curtis: Yeah, I think we're going to learn as we go along. Certainly, as a Scheme Actuary I'm very interested in the quality of the work given by corporate advisors, particularly on funding issues, and it's often been a bug-bear of mine, as Ben and Des will attest.

The Chair: Without jumping to any conclusions.

Jane Curtis: I know, without jumping to any conclusions, yes, but I think some of that might emerge through some of the Thematic Reviews, and if experience or the evidence suggests that we need to go deeper then, the scheme will evolve over a period of time.

The Chair: Okay. Let's take the next point, if we may. Just out here on my left on this side of the aisle.

Murray Wright: Hi Murray Wright, JLT. Linked to that point, I guess the majority of valuations we go through are very standard and boring, and you use standard documentation that your firm produces. They'll be TAS [Technical Actuarial Standard] compliant. It won't be particularly interesting in terms of Direct Reviews. It's always those one-off, maybe once a year cases, you pick up that are really unusual scheme funding for schemes of really poor covenant or there's something going on with another company. It's how you identify the interesting ones where the risks are, because if you're just looking at - if you just pick a valuation out, most of the time, you're not going to learn anything from that. The actuary will just be going through the standard processes. You're not going to find anything different. And then it's linking back - it's more ground-breaking work, the stuff we're talking about, the more 'off-the-cuff' stuff that there'll be problems. There's how, I'm interested to know, how you'll pull out the interesting cases, because that's the only way you're going to get value out of this.

The Chair: It is the case in the proposition as it currently stands that one of the things we talk about, and you mentioned in the slides, is, (in terms of the Category A interviews, to use that label) one of the techniques we're proposing is that we're trying to focus on, as it were, the key documents, the key elements of an actuary's year if I can use that label. So, bearing that in mind perhaps I can - Jane, Jerome, do you want to comment on that point?

Jerome Kirk (Member of the IFoA Regulation Board): Well, I'll start off if that's okay. So, just very quickly, my background: I'm a non-Life actuary. I did the insurance section of this last night. I think there's some validity in that, but if we're starting with the premise of the public interest the PC roles are there for a reason, and the reason is they are roles held by statutory requirements or regulation. And again, those are there for a reason. They're the ones which are probably to protect, again, the public the most. So, I think it's a perfect place to start, and then if you're saying that they're boring or more standardised I don't think that's necessarily true. We certainly haven't seen that on the on the insurance side, and so it's right to focus on those and then be slightly more intrusive, but then that's where the Category B comes in: where there's the 'more interesting'. And that's it's, it's picking up the risks so that then there's the Thematic Reviews and, and to look at those is what I'd have thought is where we try and mop up the non-standard cases, and it's trying to cover those as they emerge. So, it's key to picking up what are the emerging risks, the bubbling as Jane said, and then trying to capture those early enough so they can go

and look at those and see if they're across the board enough, because if it's just an isolated - if you've got a very interesting - one piece of work that's very specific to that, then that's a harder one to catch to be absolutely honest with you. It's very hard to capture the scheme that will do that, because you almost have to submit what you're going to do in advance and then get back to it. So, that's why I think it does capture almost everything in the way we proposed it.

The Chair: Jane, do you want to add?

Jane Curtis: Can I just add a few comments, with a pension's perspective? So, standardised doesn't, actually, necessarily mean boring, because one of the challenges that's made of us, as a profession, particularly around the large employers of actuaries - this is too much group think going on. So, actually looking at some of those standard reports might reveal whether there is some of that going on, and we've no reason to believe there is, but that's something that we do need to just take a look at. I mean, I think other sources for actually taking a targeted approach will be where you see in the press that there's a lot of comment about a particular organisation, because the Scheme Actuaries will have to record out which appointments we've got, so we'll be able to target those particular ones, but also the interviews with the firm, the QAS accredited firms and the individuals themselves, and one would hope as well if the Pensions Regulator had any particular concerns that they would draw them to our attention. I believe that that the intention is for them to cooperate with us in that respect, so hopefully that will ensure that we target in the right areas.

The Chair: Who'd, who'd like to go next? Yes. Just wait for the microphone. It's on its way.

Helena Dumycz: Hiya, Helena Dumycz. Just looking at B and C now: I think A is quite obvious to follow that through, go for the PC holders, fair enough. I think you might over-emphasise the pension's side, just based on sheer numbers. I don't know what - how that related PC holders versus actual actuaries working in the pensions, versus the insurance fields but I'll leave that with you. In terms of B and C, I confess, I can't really see the difference between them, so are you able to give an actual example as to how you would go about collecting those evidences and surveys, as to what the difference is?

The Chair: Okay, Ben, maybe we start with the second point: the distinctions between C and B, and then perhaps you go on and comment on the first point.

Ben Kemp: Yes, I'm not sure - I am entirely - forgive me - I'm not sure I entirely caught the first part, but let me have a go at the B and C.

So if we start with C. C, as proposed, is periodic information-gathering exercises. To shorthand it, that might be by way of survey. It might be, we do focus groups from time-to-time/questionnaires: that sort of thing. But it would be specific initiatives to gather in data, gather in information. That information will then inform, we will use that to inform, a view on the basis of the information we gather, as far as it goes, as to whether there may be issues in particular. In relation to particular roles: particular questionnaires or surveys might be about particular types of work/particular roles. A question we have, or we've been exploring, in relation to - I don't know - the way in which corporate advisors to pension schemes are doing a certain part of what they do, whatever. If we then - if that then generated a basis for a wider concern, we might then move to Category B activity, which would be a more intense focussed study: Thematic Review. Where we would actually go out and look at - and ask for the cooperation of Members and their firms to engage with us to help us - to look at the way in which work in this particular area was being done. And, we might do that on an anonymised basis, a generic basis, but we would actually want to look at some work. We would want the engagement, a direct engagement of employers, as well as individual Members, and we would issue a report at the end of that, and there's examples of that in the Consultation Paper, and we would aim to publish a report. It would aim to give generic findings. It would be a more intensive/substantive exercise, as compared to the Category C.

The Chair: And, Ben, in the way that is intended in the proposition, Category A would be mandatory for a PC holder.

Ben Kemp: Yes.

The Chair: What's the position in relation to Category B and C?

Ben Kemp: So, Category B and C: we will be calling for the cooperation, the voluntary cooperation, of our Members and their employers. We are looking for your support.

The Chair: So, not mandatory.

Ben Kemp: Not mandatory, no.

The Chair: It's a matter of choice to participate.

Ben Kemp: We hope that people will see the benefit to the profession as a whole in these sorts of studies that we will coordinate and deliver in an appropriately sensitive way.

The Chair: Now, I know you made some opening remarks, and, I don't want to miss that and make sure that we respond to that. Perhaps I could ask you just to restate that so we will make sure we, captured it.

Ben Kemp: Thank you.

Helena Dumycz: Yeah, thanks. Thank you for that response Ben, that was pretty clear. Thank you. So, my first comment was more around the statistics you presented. You have got a high proportion in the number of Members who hold PCs that are in pensions, and less in insurance. I don't know whether that tallies with the number of actuaries you've got working in those fields or not, whether that proportion is qualified Fellows as well as PC holders, but my concern was: are you going to over-focus on Scheme Actuaries over insurance-based work?

The Chair: Okay, so, just to be clear here, and I'm not sure if we can just skip back to slide 21 but, what slide 21 says is this. Category A will directly impact UK PC holders only. 7% of UK Members are PC holders. 70% of IFoA Practising Certificates are Scheme Actuary Practising Certificates. 30% are insurance Practising Certificates. Now, what we're doing there is talking about the distribution. It has an impact in terms of what we're seeking to do in terms of the proposition around proportionality. It also feeds in to frequency of 'interviews' using that label, for the workings of Category A. It is correct, I think I'm saying, colleagues, to be very clear, that the mechanism for Category A to bite upon a Member, is the fact that they hold that PC. If you don't hold that PC, then you're not going to be caught in Category A. Participation in Category B or C activities is irrespective of when you're holding a PC. Now, I think perhaps, your point then raises another question of whether the scope of the PC regime [Practising Certificates Scheme] goes far enough. Given some of the changes that, as it were, may be applying in terms of, say, actuaries involved in advising/sponsoring employers in relation to their DB [Direct Benefit] scheme obligations, *etc.*, *etc.*, I don't know whether anybody wants to comment on that?

Jane Curtis: Well, I was going to comment that I think the Life actuaries in particular are subject to very substantial scrutiny from the other regulators in a way in which pension actuaries are just not, and I've observed that first-hand. So, I think actually, when taken as a whole there won't be an over-focus. We might have more of a focus on Scheme Actuaries, but I think, taken as whole there won't be, but some of our work will be influenced by what we hear from the other regulators in relation to insurance actuaries.

Jerome Kirk: And, I guess just to add to that, in terms of scope of coverage, for, well, not entirely, but for all intended purpose that, the majority of the insurance PC holders are how the Chief Actuary function under Solvency II, which is required for effectively every large firm, is met. So, there is the coverage of all non-Life and Life insurance companies in the UK effectively. So, in terms of coverage, we're covering all the pension schemes and all the insurance companies bar small insurance companies. And as Jane said - we wonder - we get scrutinised quite a lot and audited, regulators, so (inaudible) and if you were within Lloyd's, you also get Lloyd's as well. So, there's already a lot of scrutiny there, but in terms of coverage, it's - I just took - it means that, obviously, insurance people work harder than pensions. That's why the different proportion, not to be at all controversial, but moving on . . .

Jane Curtis: No! No- moving on here.

Jerome Kirk: I might be outnumbered on that one, I think.

The Chair: Okay, and before we leave that slide, let me just also add, from point of view of the stats, that we've ignored the impact of an individual having multiple PC certificates, so that may affect the numbers, but I think the impact is slight. So, let's move on to the next question/comment over here. Just waiting for the microphone to come to you.

Doug Huggins: 2.8 of APPENDIX 1 talks about the interactions that will be had with the Practising Certificate holder and possible disciplinary.

The Chair: Yes.

Doug Huggins: Have you considered whether that would meet any obligations arising for an actuary carrying out these reviews under the Actuaries' Code Speaking Up requirements? Because I had had the fear expressed to me that this process would create a number of just fairly trivial whistle-blowing. Because people will, the reviewers would be worried that they would have to cover their own backs to some extent, by making sure that they'd highlighted anything that they'd seen.

The Chair: Yes. Ben?

Ben Kemp: I think that's a good question, and the short point is that, we will ensure that the reviewing team are appropriately briefed and trained. We have said, throughout the Consultation Paper, in various places that the purpose of monitoring is to promote standards/improve information/generate and improve feedback. We have also said, however, that clearly, if we were to come across an egregious issue of sufficient gravity then that could result. We can't exclude, and tell you that won't resolve in a disciplinary case, because that wouldn't have been a responsible thing to say. We can't say that, but we will certainly seek to avoid the risk that our own reviewers are overzealous in referring matters which don't merit it.

Doug Huggins: I think it's just the reassurance that it would follow - it would work its way through the process as described here, rather than spring out-unexpectedly popup.

Ben Kemp: Yes, and I think that's a very fair comment.

Doug Huggins: Without the ability, for instance, that first bit of speaking to the PC holder themselves, yes. Yes.

Ben Kemp: I think it's a really fair comment, and look, there is an onus on us, I think, assuming we proceed with this, to ensure the appropriate training and calibre of our reviewers. And actually, the credibility and the success of this will hinge, to a significant extent, on that.

Jerome Kirk: As we alluded to, I used to work at Lloyd's and ran the process for reviewing those SAO reports. And, I can say it does- it never- you don't feel the obligation on small things, because there are always little things. We used to have about 100 reports: 100 formal reports. You would find little things, and you do go back and that's why it's a good process for mopping up just little points. Luckily, I don't think we ever found anything serious. So, I never had to cross that bridge, but the key thing was just the feedback on general practice, how you map against others, and everyone finds it useful, but there are lots of little bits that you go back to the PC holder, and it works quite well. But, as Ben said, with the right briefing of the team, it does work. It can do and should do.

Doug Huggins: And, just one which is perhaps just more of an observation, but I struggled a lot with table A3.1 and A3.3, and I wonder, are there some typos in this?

The Chair: Sorry, table?

Doug Huggins: Table A3.1, which is the proposed steps to identify the Direct Review sub-Category.

The Chair: Yes, on page 23, I think, yes?

Doug Huggins: Yes.

The Chair: That one? Yes.

Doug Huggins: The pensions is over the right-hand side, and is restricted to 'C' and 'D', and then QAS sub-band code becomes '2' and '1', but those aren't the codes that are used in any way in pensions, at the bottom of A3.3?

The Chair: Ben?

Ben Kemp: Well -

Jane Curtis: This had a- this was a subject of a lot of debate, this table.

Ben Kemp: Well, yes. I think there's also a time, I think I may stand corrected by colleagues, but I also thought there might be a typo in letters on the pensions at the bottom of page 24, if that's what you're referring to.

Doug Huggins: Yes.

Ben Kemp: And, I think that the letter 'l' might probably be 'P', and not 'l'.

Doug Huggins: I didn't know whether that should be 'P.C.2' potentially . . . slightly odd.

Ben Kemp: Yes.

Doug Huggins: (inaudible), if you follow that table down.

Jane Curtis: Oh, yes.

Ben Kemp: I think you may be right for which, if that is correct, then apologies.

The Chair: But, I think also what we'll do is, we'll take away the point you make, and if, as we think we've got an error here, we'll get a correction and we will publicise that.

Ben Kemp: It doesn't - I don't think it goes to the substance, but it does go to the clarity of that point.

Doug Huggins: Yes, just people were struggling to work their way through the logic of what was going on there.

The Chair: Yes. Thank you for that, yes. Who's next? Deborah.

Deborah Cooper: Deborah Cooper, Mercer. This follows on a little bit from Doug's point. Had/have you considered whether or not the scheme could be made anonymous? I know you can't interview people anonymously, and I'm thinking from two points of view. One is to get away from the idea that this is - like, the words 'personal vendetta' spring to mind - but that's not what I mean, but you know, that it becomes a personal thing. Secondly, because people are - do have biases - some colleagues are considerably more persuasive than other colleagues, and knowing you work for a particular firm can influence the way you view a piece of work. And so, whether or not doing it in some anonymised fashion might work better, you miss the - well, you wouldn't necessarily entirely miss the review, because you'd know the firm it'd come from - I think somebody needs to know the firm of the person - but, the actual person doing the investigation, I don't think does.

The Chair: Yes. I see your point. And your question brings back (inaudible) I have about, for example, the impact in - this is a North American example I'm conscious of - in terms of medical regulators anonymising the practitioner they were looking at and the impact that that had in terms of the outcomes. Ben?

Ben Kemp: Thank you Deborah, and it's a really interesting point. The point I was going to make was that this is something we have considered, and there's a different/slightly varied response as between the different Categories in the paper [Consultation Paper]. So, in relation to Category A, where part of the remit/the proposed focus is to give individual feedback, we would not be anonymising, because we're engaging with the individuals: the individual PC holder. We're getting individual feedback for them. I suppose, and I'm thinking out loud, one could review the work, potentially, in an anonymised way, and then it's identified to the individual afterwards. And, that's what you mean, to give more objectivity, and so I think we take that away as an interesting suggestion.

Jane Curtis: Yes, I agree. I agree.

Ben Kemp: Yes, thank you.

The Chair: Just to complete that: in Category B we have proposed that where possible we could anonymise because it's more generic thematic studies, *etc.*

Ben Kemp: Yes.

The Chair: Thank you. Anyone else? Any other points? Just at the front here on my right.

Katherine Snape: Hi, I'm Katherine Snape from KPMG. I'd be interested to know a bit more about, what you're going to be looking at when you review Scheme Actuaries' work. Is it going to be, for example, that the advice you've given is 'robust and complete,' rather than, for example, 'accuracy of actuarial calculations'?

The Chair: Okay. Jane, Jerome, I think this probably falls somewhere between the two of you.

Jerome Kirk: Okay.

Jane Curtis: Yes.

Jerome Kirk: Probably Jane. Yes, I can answer on the insurance side.

Jane Curtis: My understanding, and again, colleagues will correct me if I'm wrong, is it's not looking at the accuracy of the calculations, but at the, the process you've used, effectively, to come up with your advice and the extent to which that advice complies with the actuarial standards, so not the calculations.

Jerome Kirk: Yes, just to be honest, just to agree to that: that's my understanding as well. You're not trying to get in there to check the accuracy of the calculations. It is, as Jane said, the process. It's the output. It's the assumptions that have gone into it, and then the documentation, for example, just at that level that would be the area you would focus on. And again, it's not been finalised, but they say you, if-, you get to a level where you, you get some comfort and give feedback on that. And, it probably only would be if maybe this is-, sorry, this is my assumption. If, if there was something that was concerning, so that you might ask a question to just go down and say, 'Actually, can, can we just have a look at that, because that doesn't look right', or you know, 'That-, I, I can see that happening, but that would be my exception, rather than anything else.'

The Chair: I guess it's also probably worth adding that one of the things that we've also indicated in the proposition that currently stands is that what-, when-, we're trying to avoid, we don't want to see is, the interview process in Category A activity. As it were second-guessing the judgements, the choices, of the, the, the colleague who is the subject of that Category review. , we're not trying to substitute our view, our opinion, particularly with the benefit of hindsight and (inaudible), for what the individual did at the time. We are (inaudible) to have regard to, and we recognise this is a challenging aspiration. What we're seeing with regard to is the quality. There are reasonableness, if you will, of that judgement, like you say, or that piece of work. Anyone else? Simon, right at the front. Here's the microphone coming down.

Simon Carne: Thanks. Simon Carne. Just a quick follow-up on that last question, because I'm struggling a bit. If one of the purposes of this project is to enhance the reputation of the profession - I'm not saying

that's the primary purpose, but I think it was stated as one of the purposes - in the hypothetical situation where the Scheme Actuary or the insurance company equivalent has messed up the calculations, and something then subsequently emerges in public which reveals that the calculations were messed up and it becomes public knowledge that that piece of work had been subject to a review by the profession, how will you defend yourselves? Will you have an answer prepared, not necessarily at 6:35 this evening, but will you have an answer prepared for when that, if that eventuality arises?

The Chair: Who wants to comment on that?

Jerome Kirk: Well, I can. So, I don't know whether this is the answer to this. I can talk from my Lloyd's experience, which made it very clear what reviews were and what they weren't, just in case for that very reason. And it's - I'm trying to think of - you would hope, as we were just saying, if you go through a review and, having done quite a lot of them, and again, well, I think most of us normally have been in the business, where we have reviewed other people's work in some guise, and had our own work reviewed, quite substantially as well, is: if something normally feels clearly wrong or something very strange is going on - it does popup in reviews. I mean, that would be my exception. That would be in extreme circumstances, so we're not focussed on that and it could be found at that stage, so I'd expect most things. If there's then something that's buried very deep and has been missed and that comes out then I think that there would be an explanation of the process that goes through and I'd be very comfortable that we'd be able to explain the position of "how will the review to add benefit," but they're not designed to completely redo the work and completely go down and check absolutely everything that underlies a piece of work. So, I think there's a very small risk of that, but, in fact, if it either stops something at an early stage, or uncovered something at an early stage: that's way more likely to happen. So, it's the benefit, the chance of finding something, not that we think there's any skeletons in the cupboard there, but that would - if that happened, I think - be found at that stage, rather than missed.

Jane Curtis: I thought your question was going to be broader than that, Simon, because potentially, our reputation is at risk, if anything is found untoward, if there's a corporate failure the actuarial work might be called into question. But nevertheless, if we've done a review, it's perception about whether or not we should have found something, even if there was nothing to find anyway. So, I think we've always realised that there was, there is, some risk to the profession of just having this regime anyway.

Ben Kemp: I was going to say something similar to Jane, actually, and building on what Jerome said, I think it's a good question/good challenge. Whatever you extrapolate from it, there's a risk in anything we do as a professional body in putting ourselves out there. That's true with the QAS too. So, if we accredit an organisation under QAS, and there's some failing of a QAS firm, we might be criticised for that. On the other hand, I think the mitigants is to try to do what we do as best we can, and as effectively as we can, subject to being proportionate, but also, I don't think that's a reason not to do what we think is the right thing to do, and hopefully, by doing the right thing we've got a better chance of spotting these things before they do arise in the first place. It's a slightly convoluted answer.

The Chair: So, just trying to summarise that then, and I don't suppose (inaudible), but let's say - this hypothetical benefit you were talking about - we suggest that, were we to find an egregious series of errors with the numbers that hadn't been identified previously through all of the (inaudible) insurance processes that you might anticipate, and think about where there is something to audit, all that sort of stuff. And, the circumstance in which, let's say, faults/problems/errors in that process of validation and checking, and being satisfied as to the adequacy of calculations - if that gave rise to concern, then clearly we'd need to act upon that. And, I think, and I can't say that we've discussed this in considerable detail, but I think I'd be right in saying that, our direction of travel would be - well, that's not a reason for us not considering the need to look into these, even if we were going to uncover exceptional matters like this. And, yes, such a hypothetical/exceptional matter where there are egregious failings, could generate some short-term reputational risk for the profession, for the Institute [IFoA], but addressing it and dealing with it seems to us, the better way of managing that risk. Certainly, one might argue that that would be a better way of dealing with the public interest obligations, if 'obligations' is the right word, which was spoken of at the beginning. But, overarching, it seems to me, is the point that we believe that such circumstances - it's absolutely a valid question - but we think such circumstances are exceptional if they're going to (inaudible). Anyone else? Yes?

Murray Wright: Sorry, Murray Wright again. Jane, you mentioned a couple times about – if an interesting case come up in public - a company pops-up with some insolvency or corporate transactions or something like that - at the moment The Pensions Regulator [TPR], a week after someone does a profit warning, we might get an email in saying “give us more information about it” - we'll be in the same situation where - so say something comes up on BBC News about a company - a Scheme Actuary should be expecting an email from the profession saying “we want to come in and review work on that case”. Will it be a proactive dealing with cases as they're going through, or will it be looking back after the dust has settled: it's just more to understand what our Scheme Actuaries should be expecting to receive from the profession?

The Chair: Well, before Ben comes in, let me again, if I may, just make this point here. I think we are talking about hypothetical matters here and we're talking about what I think are very, very rarefied or unusual examples, and that's an important 'health warning' that I can start with before we get into it. But, let's pick up the point you're making. Ben? Then I'll come to Jane.

Ben Kemp: We, as we responsibly do, should naturally monitor what's going on in the external world. We monitor the press and we monitor what our - well, we talk to our fellow regulators and other professional bodies as well. But, if we pick something up in the press, say, I don't know, some corporate crisis and pension scheme crisis, a particular scheme, that's firstly one data point for us. Yes. And, we do not assume from that that there's some problem with the actuarial analysis. It's information that we take on board. It might be part of a set of information that will help to inform our overall risk analysis in distributing our resources, but no, I don't think it would be an over-simplification to say that just because we hear about the problem with a particular scheme doesn't mean we'll be on the phone the next day to say “you're the Scheme Actuary to that scheme: we want to see all your work”. It would be a more measured and thoughtful response than that, and actually we already take what, I hope, are sensitive and appropriate steps where those sorts of issues arise: to make enquiries to try to establish whether there is an issue or not, and generally there isn't, from an actuarial point of view.

The Chair: And, Ben, am I right in thinking that there are legal precedents that, before we call up on somebody to respond to an enquiry from us, we need to have a reasonable basis for making that enquiry. We can't go off on a 'fishing expedition' looking for information that may or may not...so there's got to be some reasonableness to our going ahead.

Ben Kemp: Yes, lawyers have nice phrases for this sort of thing. 'Fishing expedition' is one. So, we can't do that, can't go off on a frolic on our own. It needs to be measured, considered, reasoned, and the extent that we are in that sort of mode and we're following up on information or leads, we might be irresponsible to ignore it, equally. We'd be very much in 'fact-finding mode'.

The Chair: Yes.

Ben Kemp: Not necessarily in 'monitoring mode' as in, coming and wanting to look at your paperwork the next day.

Jane Curtis: Yeah. I would agree with Ben. Do not expect a call from the profession in the same way as you might get one from the regulator.

Jerome Kirk: I think the way I'd have seen - it is this interaction with other regulators and whose role sits where. As you say, if it's an insolvency, say, a non-life insolvency, the PRA would be the one. That's their role, and then maybe on the back of that, if something comes back to the profession, and in order to make sure, yes, you wouldn't just 'get the phone call,' it's just not another person who would be phoning you. That's certainly the way I'd have thought of it: the interaction with other regulators is imperative. We coordinate with the other regulators in that situation.

The Chair: Okay, anything else, or any other points anybody wants to raise? Okay, well, can I start by thanking all of you for giving up your time on a very hot evening. We're delaying you from the delights of sitting in the garden with a cold drink, or whatever it might be, so thank you very much for being here. Thank you for your participation and your contribution. Let me remind you, if I may, that the consultation runs until 28 September. On the website you would find all the materials and guidance as to how to

respond. We are very catholic in our taste, in terms of how you can respond. We're not going to be high-bound by the way in which you choose to do it. We're much, much more concerned to hear from you and to see all possible views by way of responses to the consultation, so I hope you will do that. We have a task to look at, in terms of whether we've identified an error on pages 23 and 24, and if there is one we will get a correction out and promote that correction appropriately, so thank you for that. Beyond that, perhaps I can ask you to join me in showing our appreciation, in the usual way, for our presentation and panel contribution from our speakers. Thank you.