

# Chapter 4

## Actuaries

4.1 Application

- 4.1.1

R

This chapter applies to:

(1)

every *firm* within a category listed in column (1) of the table in [SUP 4.1.3 R](#); and

(2)

every *actuary* appointed under this chapter;

in accordance with column (2) of that table.
- 4.1.2

G

This chapter applies to *long-term insurers* (including *friendly societies*) and other *friendly societies* and to the *Society of Lloyd's* and *managing agents* at Lloyd's. This chapter does not apply to *actuaries* advising the auditors of *long-term insurers* as they are not appointed to act on behalf of the *firm*.
- 4.1.2A

G

This chapter applies in part to a *Solvency II firm* where it appoints an *actuary*. This will be in particular with regard to the *with-profits actuary function* but also where an external *actuary* is appointed to perform tasks of the actuarial function of a *Solvency II firm*, under PRA Rulebook: Solvency II Firms: Actuaries. More generally, this chapter applies to a *Solvency II firm* which chooses to appoint an *actuary* to fulfil the requirements under rule 6.1 of PRA Rulebook: Solvency II firms: Conditions Governing Business to provide for an actuarial function.

4.1.3

R

Applicable sections

| (1) | Category of firm  | (2) Applicable sections or rules      |
|-----|---|---------------------------------------|
| (1) | A <i>long-term insurer</i> , other than:  | SUP 4.1, SUP 4.2, SUP 4.3 and SUP 4.5 |
|     | (a) a <i>registered friendly society</i> which is a <i>non-directive friendly society</i> ;                     |                                       |
|     | (b) an <i>incorporated friendly society</i> that is a <i>flat rate benefits business friendly society</i> ; and |                                       |
|     | (c) [deleted]   |                                       |
|     | (d) a <i>Solvency II firm</i> (for which see (5) below).  |                                       |
| (2) | A <i>friendly society</i> , other than a <i>friendly society</i> within (1) or (5).                             | SUP 4.1, SUP 4.2, SUP 4.4 and SUP 4.5 |

| (1) | Category of firm   |  | (2) Applicable sections or rules   |
|-----|--|--|--|
| (3) | [deleted]  |  |  |
| (4) | [deleted]  |  |  |
| (5) | A <i>Solvency II</i> firm which does any of the following: |  | SUP 4.1, SUP 4.2, SUP 4.3, SUP 4.4 and SUP 4.5 except that:  |
|     | (a)  | appoints an <i>actuary</i> to fulfil the <i>actuarial function</i> for the purposes of rule 6 of the PRA Rulebook: Solvency II firms: Conditions Governing Business; | SUP 4.3.8 G to SUP 4.3.10 G do not apply to (a) and (b) in column 2; and<br><br>SUP 4.3.13 R to SUP 4.3.15 G, and SUP 4.4.6 R do not apply |
|     | (b)  | appoints an external <i>actuary</i> in accordance with PRA Rulebook: Solvency II Firms: Actuaries;   |  |
|     | (c)  | appoints a <i>with-profits actuary</i> .   |  |

## 4.2 Purpose

- 4.2.1** **G** Section 340 of the *Act* gives the *PRA* power to make *rules* requiring an *authorised person*, or an *authorised person* falling into a specified class, to appoint an *actuary*. The *PRA* has exercised its power to make such *rules* in *PRA Rulebook: Solvency II firms: Actuaries*; and *PRA Rulebook: Non-Solvency II firms: Actuarial Requirements*. The rule-making powers of the *PRA* and *FCA* under section 340 of the *Act* also extend to an *actuary's* duties.
- 4.2.2** **G** This chapter defines the relationship between *firms* and their *actuaries* and clarifies the role which *actuaries* play in the appropriate regulator's monitoring of *firms'* compliance with the requirements and standards under the *regulatory system*. The chapter sets out *rules* and *guidance* on the appointment of *actuaries*, and the termination of their term of office, as well as setting out their respective rights and duties. The purpose of the chapter is to ensure that:
- (1) *long-term insurers* (other than certain *friendly societies* and *Solvency II firms*) have access to adequate actuarial advice, both in valuing their *liabilities to policyholders* and in exercising discretion affecting the interests of their *with-profits policyholders*; and
  - (2) other *friendly societies* (other than *Solvency II firms*) carrying on *insurance business* (and which have traditionally relied upon actuarial expertise) employ or use an *actuary* of appropriate seniority and experience to evaluate the liabilities of that business; and
  - (3) where *Solvency II firms* appoint, employ or use an *actuary*, certain appropriate safeguards are in place.
- 4.2.3** **G** The functions described by **■ SUP 4.2.2 G (1)** are performed by one or more *actuaries* who are required to hold office continuously and must be *approved persons*. *Solvency II firms* are required to have an actuarial function. *Solvency II firms* are not required to appoint an external actuary to fulfil the actuarial function for the purposes of rule 6 of the *PRA Rulebook: Solvency II firms: Conditions Governing Business*, but they must do so if they do not have the internal capability (see *PRA Rulebook: Solvency II Firms: Actuaries*). Whoever has responsibility for the actuarial function (whether internal or external) will need to be approved by the *PRA* as a Chief Actuary. *Solvency II firms* carrying on *with-profits business* are required to appoint a qualified *with-profits actuary* (whether internal or external). Whoever has responsibility for advising the *governing body* of the firm on the exercise of discretion affecting the *firm's with-profits business* will need to be approved by the *PRA* as a With-Profits Actuary. The principal duty of an *actuary*

appointed to perform these functions is to advise the *firm* (see ■ SUP 4.3.13 R to ■ SUP 4.3.18 G for the rights and duties of such an *actuary*).

4.2.4 G The function described by ■ SUP 4.2.2 G (2) is performed by an *appropriate actuary* who is appointed to prepare the triennial investigation and interim certificate or statement required by IPRU(FSOC) 5.2(1) (see ■ SUP 4.4.6 R and ■ SUP 4.5.12 G to ■ SUP 4.5.14 G for the rights and duties of an *appropriate actuary*).

4.2.5 G *Actuaries* act as a valuable source of information to the *appropriate regulator* in carrying out its functions. For example, in determining whether a *firm* satisfies the *threshold conditions*, the *appropriate regulator* has regard to whether the *firm* has appointed an *actuary* (or some other person with responsibility for the actuarial function required by rule 6 of the PRA Rulebook: Solvency II firms: Conditions Governing Business) with sufficient experience in the areas of business to be conducted by the *firm*.

4.2.6 G In making appointments under this chapter and in allocating duties to *actuaries*, *firms* are reminded of their obligation under ■ SYSC 2.1.1 R or rule 2.2(2) of the PRA Rulebook: Solvency II firms: Conditions Governing Business to maintain a clear and appropriate apportionment of significant responsibilities so that it is clear who has which of those responsibilities and that the business and affairs of the *firm* can be adequately monitored and controlled by the *directors*, relevant *senior managers* and *governing body* of the *firm*.



4.3 Appointment of actuaries

Appointment by firms

4.3.2 G [deleted]

Actuaries' qualifications

4.3.8 G The FCA is concerned to ensure that every *actuary* appointed by a *firm* under PRA rules made under section 340 of the Act or for the purposes of PRA Rulebook: Solvency II firms: Conditions Governing Business, 6, has the necessary skill and experience to provide the *firm* with appropriate actuarial advice from a conduct perspective. ■ SUP 4.3.9 R to ■ SUP 4.3.10 G set out the FCA's rules and guidance aimed at achieving this.

4.3.9 R Before a *firm* applies for approval of the *person* it proposes to appoint as an *actuary* under PRA rules made under section 340 of the Act, or for the purposes of PRA Rulebook: Solvency II firms: Conditions Governing Business, 6, it must take reasonable steps to ensure that the *actuary*:

- (1) has the required skill and experience to perform his functions under the *regulatory system*; and
- (2) is a Fellow of the Institute of Actuaries or of the Faculty of Actuaries.

4.3.10 G To comply with ■ SUP 4.3.9 R and Principle 3, before an *actuary* takes up his appointment the *firm* should ensure that the *actuary*:

- (1) has skills and experience appropriate to the nature, scale and complexity of the *firm's* business and the requirements and standards under the *regulatory system* to which it is subject; and
- (2) has adequate qualifications and experience, which includes holding an appropriate practising certificate under the rules of the Institute of Actuaries or the Faculty of Actuaries;

and seek confirmation of these from the *actuary*, or the *actuary's* current and previous employers, as appropriate.

### Disqualified actuaries

**4.3.11** **R** A *firm* must not appoint under *PRA* rules made under section 340 of the *Act* or for the purposes of rule 6.1 of the *PRA* Rulebook: Solvency II firms: Conditions Governing Business, an *actuary* who is disqualified by the *FCA* under section 345 of the *Act* (Disciplinary measures: *FCA*) or the *PRA* under section 345A of the *Act* (Disciplinary measures: *PRA*) from acting as an *actuary* either for that *firm* or for a relevant class of *firm*.

**4.3.12** **G** If it appears to the *FCA* that an *actuary* has failed to comply with a duty imposed on him under the *Act*, it has the power to and may disqualify him under section 345 of the *Act*. A list of *actuaries* who are disqualified may be found on the *FCA* website (<http://www.fca.org.uk>).

### Conflicts of interest

**4.3.12A** **R** A *firm* must take reasonable steps to ensure that an *actuary* who is to be, or has been, appointed under *PRA* rules made under section 340 of the *Act*, or for the purposes of *PRA* Rulebook: Solvency II firms: Conditions Governing Business, 6:

- (1) does not perform the function of chairman or *chief executive* of the *firm*, or does not, if he is to perform the *with-profits actuary function*, become a member of the *firm's governing body*; and
- (2) does not perform any other function on behalf of the *firm* which could give rise to a significant conflict of interest.

**4.3.12B** **G** Both the *actuarial function* and the *with-profits actuary function* may be performed by *employees* of the *firm* or by external consultants, and performing other functions on behalf of the *firm* will not necessarily give rise to a significant conflict of interest. However, being a *director*, or a senior manager responsible, say, for sales or marketing in a *firm* (or for finance in a proprietary *firm*), is likely to give rise to a significant conflict of interest for an *actuary* performing the *with-profits actuary function*. He nevertheless retains direct access to the *firm's governing body* under ■ SUP 4.3.17 R (2).

### The actuarial function

**4.3.13** **R** An *actuary* appointed to perform the *actuarial function* must, in respect of those classes of the *firm's long-term insurance business* which are covered by his appointment:

- (1) advise the *firm's* management, at the level of seniority that is reasonably appropriate, on the risks the *firm* runs in so far as they may have a material impact on the *firm's* ability to meet *liabilities to policyholders* in respect of *long-term insurance contracts* as they fall due and on the capital needed to support the business, including regulatory capital requirements;
- (2) monitor those risks and inform the *firm's* management, at the level of seniority that is reasonably appropriate, if he has any material concerns or good reason to believe that the *firm*:
  - (a) is not meeting *liabilities to policyholders* under *long-term insurance contracts* as they fall due, or may not be doing so, or might not have done so, or might, in reasonably foreseeable circumstances, not do so;
  - (b) is, or may be, effecting new *long-term insurance contracts* on terms under which the resulting income earned is insufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources that are available for the purpose, to enable the *firm* to meet its *liabilities to policyholders* as they fall due (including reasonable bonus expectations);
  - (c) does not, or may not, have sufficient financial resources to meet *liabilities to policyholders* as they fall due (including reasonable bonus expectations) and the capital needed to support the business, including regulatory capital requirements or, if the *firm* currently has sufficient resources, might, in reasonably foreseeable circumstances, not continue to have them;
- (3) advise the *firm's governing body* on the methods and assumptions to be used for the *actuarial investigations* and reports of the *appropriate actuary* required by the *PRA Rulebook*;
- (4) perform those investigations and calculations in (3), in accordance with the methods and assumptions determined by the *firm's governing body*;
- (5) report to the *firm's governing body* on the results of those investigations and calculations in (3); and
- (6) in the case of a *friendly society* to which this section applies, perform the functions of the appropriate actuary under section 87 (Actuary's report as to margin of solvency) of the Friendly Societies Act 1992.

## 4.3.14



The *PRA Rulebook* requires *firms* to which this section applies to cause an investigation to be made at least yearly by the *actuary* or *actuaries* appointed to perform the *actuarial function*, and to report on the result of that investigation. The *firm* is responsible for the methods and assumptions used to determine the liabilities attributable to its *long-term insurance business*. The obligation on *friendly societies* to obtain a report from the 'appropriate actuary' under section 87 of the Friendly Societies Act 1992 applies to a *friendly society* which is to receive a transfer of engagements under section 86 (transfer of engagements to or by a friendly society). The 'appropriate actuary' in this context is the *actuary* appointed to



perform the *actuarial function*, rather than the *appropriate actuary* under ■ SUP 4.4 (Appropriate actuaries).

4.3.15

G

■ SUP 4.3.13 R is not intended to be exhaustive of the professional advice that a *firm* should take whether from an *actuary* appointed under this chapter or from any other *actuary* acting for the *firm*. *Firms* should consider what systems and controls are needed to ensure that they obtain appropriate professional advice on financial and risk analysis; for example:

- (1) risk identification, quantification and monitoring;
- (2) stress and scenario testing;
- (3) ongoing financial conditions;
- (4) financial projections for business planning;
- (5) investment strategy and asset-liability matching;
- (6) individual capital assessment;
- (7) pricing of business, including unit pricing;
- (8) variation of any charges for benefits or expenses;
- (9) discretionary surrender charges; and
- (10) adequacy of reinsurance protection.

**The with-profits actuary function**

4.3.16

G

4.3.16A

R

An *actuary* appointed to perform the *with-profits actuary function* must:

- (1) advise the *firm's* management, at the level of seniority that is reasonably appropriate, on key aspects of the discretion to be exercised affecting those classes of the *with-profits business* of the *firm* in respect of which he has been appointed;
- (2) [deleted]
- (2A) where the *firm* is a *Solvency II firm*, advise the *firm's governing body* as to whether the assumptions used to calculate the future discretionary benefits within the *technical provisions* are consistent with the *firm's PPFM* in respect of those classes of the *firm's with-profits business*;
- (3) at least once a year, report to the *firm's governing body* on key aspects (including those aspects of the *firm's* application of its *Principles and Practices of Financial Management* on which the advice described in (1) has been given) of the discretion exercised in respect of the period covered by his report affecting those classes of *with-profits business* of the *firm*;

- (4) in respect of each financial year, make a written report addressed to the relevant classes of the *firm's with-profits policyholders*, to accompany the *firm's* annual report under ■ COBS 20.4.7 R as to whether, in his opinion and based on the information and explanations provided to him by the *firm*, and taking into account where relevant the *rules* and *guidance* in ■ COBS 20, the annual report and the discretion exercised by the *firm* in respect of the period covered by the report may be regarded as taking, or having taken, the interests of the relevant classes of the *firm's with-profits policyholders* into account in a reasonable and proportionate manner;
- (5) request from the *firm* such information and explanations as he reasonably considers necessary to enable him properly to perform the duties in (1) to (4);
- (6) advise the *firm* as to the data and systems that he reasonably considers necessary to be kept and maintained to provide the duties in (5); and
- (7) in the case of a *friendly society* to which this section applies, perform the function of appropriate actuary under section 12 (Reinsurance) of the Friendly Societies Act 1992 or section 23A (Reinsurance) of the Friendly Societies Act 1974 as applicable, in respect of those classes of its *with-profits business* covered by his appointment.
- (8) advise on any *actuarial investigation* required to determine the *with-profits-fund surplus*.

## 4.3.16B



In advising or reporting on the exercise of discretion, an *actuary* performing the *with-profits actuary function* should cover the implications for the fair treatment of the relevant classes of the *firm's with-profits policyholders*. His opinion on any communication or report to them should also take into account their information needs and the extent to which the communication or report may be regarded as clear, fair and not misleading. Aspects of the business that should normally be included are:

- (1) bonus rates to be applied to *policies* at maturity or on the death of a *policyholder*, or when calculating the annual bonus;
- (2) investment policy in the light of product descriptions disclosed to *customers*;
- (3) surrender value methodology (including market value adjusters);
- (4) new business plans and premium rates;
- (5) allocation of expenses to *with-profits business*;
- (6) investment fees to be charged to *with-profits business*;
- (7) changes to the *Principles and Practices of Financial Management*; and
- (8) communications with *policyholders* or potential *policyholders* on the issues in (1) to (7).

- 4.3.16C** **G** The reports in ■ SUP 4.3.16AR (3) and ■ SUP 4.3.16AR (4) should be proportionate to the nature of the *with-profits business*. For smaller *firms* with fewer products, the extent of reporting would be proportionately less.
- 4.3.16D** **G** *Firms* should normally obtain advice, from the *actuary* appointed to perform the *with-profits actuary function* in respect of the affected class or classes of *with-profits business*, whenever they are preparing to make key decisions based on the exercise of discretion affecting their *with-profits business*. *Firms* should also have risk management processes in place to ensure that all relevant matters are referred to the *actuary* for advice.
- 4.3.17** **R** A *firm* must require and allow any *actuary* appointed to perform the *with-profits actuary function* to perform his duties and must:
- (1) keep him informed of the *firm's* business and other plans (including, where relevant, those of any related *firm*, to the extent it is aware of these);
  - (2) provide him with sufficient resources (including his own time and access to the time of others);
  - (3) hold such data and establish such systems as he reasonably requires;
  - (4) request his advice about the likely effect of material changes in the *firm's* business plans, practices or other circumstances on the fair treatment of the relevant classes of the *firm's with-profits policyholders*;
  - (5) pay due regard to his advice, whether provided in response to a request under (4) or on the *actuary's* own initiative; this will include, if he requests it, allowing him to present his advice directly to the *firm's governing body* (that is, the board of *directors* or, for a *friendly society*, the committee of management); and
  - (6) ensure that where a conflict of interest may arise in relation to the role of the *with-profits actuary* and the advice he gives, for example due to the *firm's* reporting lines or remuneration process, that potential conflict is identified and managed in order to minimise the possible effect of the potential conflict on the advice given.
- 4.3.18** **G** A *firm's* duty to keep an *actuary* appointed to perform the *with-profits actuary function* informed includes providing relevant information, even where the *actuary* does not ask for it. The *firm* needs to appreciate that the *actuary* may be unaware of certain business developments and so unable to request relevant information.
- 4.3.19** **G** [deleted]
- 4.3.20** **R** [deleted]
- 4.3.21** **G** [deleted]



4.4 Appropriate actuaries

Appropriate actuaries' qualifications

- 4.4.4 R A *firm* must not appoint as *appropriate actuary* an *actuary* who has been disqualified by the *FCA* under section 345 of the *Act* (Disciplinary measures: *FCA*) or the *PRA* under section 345A of the *Act* (Disciplinary measures: *PRA*) from acting as an *actuary* either for that *firm* or for a relevant class of *firm*.
- 4.4.5 G If it appears to the *FCA* that an *appropriate actuary* has failed to comply with a duty imposed on him under the *Act*, it may have the power to and may disqualify him under section 345 of the *Act*. A list of *actuaries* who have been disqualified may be found on the *FCA* website ( <http://www.fca.org.uk>).

Specific duties of the appropriate actuary

- 4.4.6 R An *appropriate actuary* must carry out the triennial investigation and prepare an abstract of the report as required by the *PRA* Rulebook.
- 4.4.7 G [deleted]
- 4.4.8 R [deleted]
- 4.4.9 G [deleted]



4.5 Provisions applicable to all actuaries

Objectivity

- 4.5.1 **R** An *actuary* appointed under *PRA* rules made under section 340 of the *Act*, or for the purposes of *PRA* Rulebook: Solvency II firms: Conditions Governing Business, 6, must be objective in performing his duties.
- 4.5.2 **G** Objectivity requires the *actuary* to perform his duties in such a manner that he can have an honest belief in his work and does not compromise the quality of his work or his judgment. An *actuary* should not allow himself to be placed in situations where he feels unable to make objective professional judgments.
- 4.5.3 **R** An *actuary* appointed under firms *PRA* rules made under section 340 of the *Act*, or for the purposes of *PRA* Rulebook: Solvency II firms: Conditions Governing Business, 6, must take reasonable steps to satisfy himself that he is free from bias, or from any conflict of interest from which bias may reasonably be inferred. He must take appropriate action where this is not the case.
- 4.5.4 **G** The appropriate action may include asking the firm's governing body to re-assign temporarily some or all of his duties to another competent *actuary*. Where this is insufficient, the *actuary* should resign his office.
- 4.5.5 **G** If the *actuary* is an *employee* of the *firm*, the ordinary incentives of employment, including profit-related pay, *share options* or other financial interests in the *firm* or any associate, give rise to a conflict of interest only where they are disproportionate, or exceptional, relative to those of other employees of equivalent seniority.
- 4.5.6 **G** The guidance and professional conduct standards in current issue from the Institute of Actuaries and the Faculty of Actuaries are relevant to compliance with ■ SUP 4.5.1 R and ■ SUP 4.5.3 R.

Actuaries' statutory duty to report

- 4.5.7 **G** (1) *Actuaries* appointed under *PRA* rules made under section 340 of the *Act*, or for the purposes of *PRA* Rulebook: Solvency II firms: Conditions Governing Business, 6, are subject to regulations made by the Treasury under sections 342(5) and 343(5) of the *Act* (Information given by auditor or actuary to a regulator). Section 343 and the

regulations also apply to an actuary of an *authorised person* in his capacity as an actuary of a *person* with *close links* with the *authorised person*.

- (2) These regulations oblige *actuaries* to report certain matters to the *appropriate regulator*. Sections 342(3) and 343(3) of the *Act* provide that an *actuary* does not contravene any duty by giving information or expressing an opinion to the *appropriate regulator*, if he is acting in good faith and he reasonably believes that the information or opinion is relevant to any functions of the *appropriate regulator*. These provisions continue to have effect after the end of the actuary's term of appointment.

4.5.7A G

**Termination of term of office**

4.5.8 G ■ SUP 4.5.9 R to ■ SUP 4.5.11 G apply to a *person* who is or has been an *actuary* appointed under *PRA* rules made under section 340 of the *Act*, or for the purposes of *PRA* Rulebook: Solvency II firms: Conditions Governing Business, 6.

4.5.9 R An *actuary* appointed under *PRA* rules made under section 340 of the *Act*, or for the purposes of *PRA* Rulebook: Solvency II firms: Conditions Governing Business, 6 must notify the *appropriate regulator* without delay if he:

- (1) is removed from office by a *firm*; or
- (2) resigns before his term of office expires; or
- (3) is not reappointed by a *firm*.

4.5.10 R An *actuary* who has ceased to be appointed under *PRA* rules made under section 340 of the *Act*, or for the purposes of *PRA* Rulebook: Solvency II firms: Conditions Governing Business, 6 or who has been formally notified that he will cease to be so appointed, must notify the *appropriate regulator* without delay:

- (1) of any matter connected with the cessation which he thinks ought to be drawn to the appropriate regulator's attention; or
- (2) that there is no such matter.

**Rights and duties**

4.5.12 G Section 341 of the *Act* (Access to books etc.) provides that an *actuary* appointed under or as a result of the *Act*:

- (1) has a right of access at all times to the *firm's* books, accounts and vouchers; and
- (2) is entitled to require from the *firm's* officers such information and explanation as he reasonably considers necessary to perform his duties as *actuary*.

- 
- 4.5.13 **R** When carrying out his duties, an *actuary* appointed under *PRA* rules made under section 340 of the *Act*, or for the purposes of *PRA* Rulebook: Solvency II firms: Conditions Governing Business, 6, must pay due regard to generally accepted actuarial practice.
- 4.5.14 **G** The standards, codes and guidance issued from time to time by the Institute and Faculty of Actuaries and the Financial Reporting Council are important sources of generally accepted actuarial practice.

