Supervision

Chapter 4

Actuaries
4.3 Appointment of actuaries

Appointment by firms

4.3.2 [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 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 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 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 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.

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).

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

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

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

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

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 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 [deleted]

4.3.20 [deleted]

4.3.21 [deleted]