Adjudication Panel Meeting

31 January, 2 and 4 February 2022

Institute and Faculty of Actuaries,

Held by Video Conference

Respondent:	Walter Thomas Benedict Canagaretna FIA
Category:	Fellow since December 2007
Region:	United Kingdom
Panel Members:	Jules Griffiths (Chair/Lay member) Navin Ghorawat FIA (Actuary member) David Lane FIA (Actuary member)
Legal Adviser:	Sharmistha Michaels
Judicial Committees Secretary:	Julia Wanless

Allegation:

The allegation against Mr Canagaretna (the Respondent) is:

A1 While he was the Chief Actuary at Company 1, the Respondent failed to ensure a Solvency II Capital Report dated 17 September 2019 (the Capital Report) and/or an Executive Validation Report dated 25 September 2019 (the Validation Report) for Syndicates A and B were compliant with the Reliability Objective within Technical Actuarial Standard 100 (TAS 100), in that:

(a) adjustments made outside of the core capital model for Syndicate A were not communicated to users of the Capital Report and/or the Validation Report;

(b) the reason for the adjustments to Syndicate A not being applied to Syndicate B was not communicated to users of the Capital Report and/or the Validation Report;

(c) the reason for the one year Solvency Capital Requirement for Syndicate A being high relative to the ultimate Solvency Capital Requirement was not communicated to users of the Capital Report and/or the Validation Report;

(d) the Capital Report and Validation Report state that Currency Risk is explicitly modelled, but this did not contribute to the filed Solvency Capital Requirement.

A2 His actions at A1 (a) and/or (b) and/or (c) and/or (d) were in breach of paragraph(s) 1 and/or 3.2 and/or 3.3 and/or 3.4 and/or 3.5 and/or 5 of TAS 100.

A3 His actions at A1 (a) and/or (b) and/or (c) and/or (d) were in breach of the Competence and Care principle of the Actuaries' Code (version 3.0).

A4 His actions at A1 (a) and/or (b) and/or (c) and/or (d) were in breach of the Communication principle of the Actuaries' Code (version 3.0).

A5 His actions, in all or any of the above, constituted misconduct in terms of Rule 4.2 of the Disciplinary and Capacity for Membership Schemes of the Institute and Faculty of Actuaries (Effective 1 February 2018).

Panel's determination:

The Panel considered the Case Report and appendices submitted by the Case Manager and Investigation Actuary (a total of 439 pages) and the Respondent's response to the Case Report, Statement of Facts Form and covering letter (a total of 10 pages). The panel also considered the advice of the Legal Adviser.

For the reasons given below the Panel determined that the Case Report disclosed a *prima facie* case of Misconduct.

The Panel accordingly invited the Respondent to accept that there had been Misconduct and the following sanctions:

- Reprimand; and
- Fine of £4,000; to be paid within 28 days of the Respondent's acceptance of the Panel's invitation; and
- Period of education, training or supervised practice

Background:

The Respondent is a member of the Institute and Faculty of Actuaries (IFoA). He was Chief Actuary of Company A, until the Company was acquired by Company B in November 2019, when he stepped down and took up the role of Managing Director. In his role as Chief Actuary he was responsible for the Solvency II Capital Report, dated 17 September 2019 (prepared by the Head of the Capital Team and signed off by the Syndicate Actuary), and he signed off the Internal Model Executive Validation Report, dated 25 September 2019 (referred to in the allegations simply as an Executive Validation Report) which was prepared by the Head of Reserving Validation.

On 13 October 2020, the IFoA received information from a member of the Institute who was a user of the Reports at Company B. The member raised concerns about Company A's Lloyds Capital Process for the 2020 Year of Account (YOA) for which the modelling and reporting was performed mainly in Q3 2019, before Company B took ownership. Specific issues raised included alleged inadequate disclosure and communication of important judgements, methodology and limitations to the users of reports produced by Company A.

These included the Solvency II Capital Report and the Internal Model Executive Validation Report, both of which were said to be in breach of Technical Actuarial Standard 100 (TAS100).

These matters were considered through the IFoA's Executive Referral process and an allegation was referred to the Disciplinary Scheme by the General Counsel on 11 January 2021.

The Respondent has co-operated with the investigation that followed. He has provided explanations for his actions. He disputes the allegations, stating that he was unaware of the adjustments made and their impact on the Capital Requirement, but that, if he had been aware, it would have been reasonable not to document them as they were not key or important.

Decision and Reasons on the Allegations:

Allegation 1

The Panel analysed each of the sub-allegations in turn, before turning to the stem of the allegation and considering the Respondent's actions against the "Reliability Objective" of TAS100.

For **Allegation A1(a)** the Case Report refers to four specific adjustments made outside the core capital model, which reduced the modelled number in relation to the number filed with Lloyds in the LCR forms by a total of 5% overall. The absolute value of the changes is said to be equivalent to 8.2%. The adjustments were detailed in the Case Report but not reproduced here to maintain confidentiality.

The member who had raised concerns acknowledged that it was not possible to say whether, if known, these issues would have made a material difference, and that the outcome might well have been the same. However, the member alleged that these adjustments were not documented, and there was no evidence that they had been independently reviewed by a member of Company A's Actuarial Function, or were known to Lloyds or the Board/Risk Committee of Company A.

The Panel noted that the Respondent has accepted that this was the case, but has argued that the adjustments were not key or important, and pointed out that the validation test plan was signed off by external consultants. He has also pointed out that, when Lloyds became aware of the adjustments they accepted them and did not require a model resubmission.

The Panel carefully considered the nature of the adjustments, and in particular whether they could be assessed as material. The Panel had regard to the "Framework for FRC Technical Actuarial Standards" which states (sections 5.8 and 5.9) that "*Assessing whether a matter is material is a matter for judgement which requires consideration of the users and the context in which the work is performed and reported…… Matters are material if they could, individually or collectively, influence the decisions to be taken by users of the related actuarial information.*" The Panel observed that the users of the Reports included Company A's Model Validation Team, Lloyds, and Company B. The Panel concluded that any of these *could* have reached different conclusions if the judgements made had been documented and communicated appropriately.

The Panel therefore concluded that the Case Report contained *prima facie* evidence to support this allegation, and that the adjustments could have been material.

Allegation A1(b) arises from the relationship between Syndicate A and Syndicate B, which took a proportionate share of Syndicate A's recent underwriting years. The Reports state that the underlying methodology and assumptions for Syndicates A and B are consistent but failed to communicate that the adjustments applied to Syndicate A's SCR were not applied to Syndicate B's SCR, even though they might be relevant to Syndicate B as well.

The Respondent has accepted that the final submission for Syndicate B did not reflect the adjustments made for Syndicate A, but says this was because they were not picked up in the validation process. He adds that he considers they are either immaterial or have low materiality, and if communicated would not have had a material effect on decisions made by users.

The Panel concluded that, given the overlap in risk exposure for both Syndicates, it was reasonable to expect that the assumptions for both would be consistent, or that the Reports would contain details of the difference in approach. The Panel therefore concluded that the Case Report contained *prima facie* evidence to support this allegation.

In considering **Allegation A1(c)** the Panel noted that neither the member who had raised concerns, nor the Case Report, provided any detailed analysis to support the assertion that the SCR for Syndicate A was high relative to the ultimate SCR. The Panel accepted the Respondent's statement that the ratio of the one-year SCR to the ultimate SCR was similar to the Lloyds market benchmarks for 2019. The Panel therefore concluded that the evidence in the Case Report did not support this allegation.

Allegation A1(d) refers to the Capital Report and the Validation Report which state that currency risk was explicitly modelled but the filed SCR did not seem to be impacted by this. The Panel considered the response from the Respondent that stated "*As I understood the Economic Scenario Generator allowed for FX risk in the distribution of asset returns however we did not allow for it on the liability side as the model was USD only. This was explicitly mentioned as a limitation of the model in section 13.3 of the validation report - page number 78.*
As I subsequently found out the 2018 SCR guidance section does in fact state that you don't need to model currency risk if the FAL is currency matched. [The Syndicate's] Corporate Member was currency matched 60% USD and 40% GBP."

The Panel accepted the Respondent's explanation, which appeared reasonable in the circumstances, and concluded this allegation was not capable of proof.

Having concluded that there is *prima facie* evidence to support allegations A1(a) and A1(b), the Panel concluded that by failing to communicate both the adjustments made, and the reasons for the lack of consistency in the treatment of Syndicates A and B, the Report was not compliant with the Reliability Objective of TAS100, which requires that "*users for whom actuarial information is created should be able to place a high degree of reliance on that information's relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information*".

While the Panel noted there was no allegation regarding failure to include a statement confirming compliance with TAS 100 (as required by TAS 100) it nonetheless observed that neither Report contained such a statement. Indeed the Panel noted that, during the investigation, the Respondent had advised that he had not reviewed the Validation Report for TAS 100 compliance but had delegated this to others.

Allegation 2

The Panel also concluded that by failing to document and communicate the adjustments made and the reasons for the lack of consistency, the Respondent's actions were in breach of the following provisions of TAS100: paragraph 1 ("material judgements shall be communicated to users so that they are able to make informed decisions understanding the matters relevant to the actuarial information"); paragraph 3.2 ("Assumptions used in technical actuarial work shall be documented"); paragraph 3.3 ("Communications shall state the material assumptions and describe their rationale."); paragraph 3.5 (Communications shall state when assumptions are set by a user or third party") and paragraph 5 ("Communications shall be clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information").

The Panel was not satisfied that it had evidence from which it could conclude that paragraph 3.4 was breached.

Allegations 3 and 4

The Panel concluded that the Respondent's actions were in breach of the Actuaries Code, both the Competence and Care principle (which requires members to act competently and with care) and the Communication principle (which requires members to ensure that any communication for which they are responsible is accurate and not misleading, and contains an appropriate level of information).

Decision and Reasons on Misconduct:

The Panel then considered whether there was a *prima facie* case that the Respondent's actions under allegations A1(a) and A1(b) amounted to Misconduct.

For the purposes of the Disciplinary and Capacity for Membership Schemes, Misconduct is defined as any conduct by a Member, whether committed in the United Kingdom or elsewhere, in the course of carrying out professional duties or otherwise, constituting failure by that Member to comply with the standards of behaviour, integrity, competence or

professional judgement which other Members or the public might reasonably expect of a Member having regard to the Bye-laws of the Institute and Faculty of Actuaries and/or to any code, standards, advice, guidance, memorandum or statement on professional conduct, practice or duties which may be given and published by the Institute and Faculty of Actuaries and/or, for so long as there is a relevant Memorandum of Understanding in force, by the FRC (including by the former Board for Actuarial Standards) in terms thereof, and to all other relevant circumstances.

The Panel concluded that by his actions, which had been found to be a material breach of both technical standards and the Actuaries' Code, the Respondent had fallen below the standards which might reasonably be expected of a member of the profession.
The Panel therefore determined that there was a *prima facie* case that the Respondent's actions were sufficiently serious as to constitute Misconduct under the Disciplinary and Capacity for Membership Schemes.

Decision and Reasons on Sanction:

In reaching its decision, the Panel had regard to the Indicative Sanctions Guidance (November 2021). The exercise of its powers in the imposition of any sanction is a matter solely for the Panel to determine and it is not bound by the Indicative Sanctions Guidance.

The Panel was aware that the purpose of sanction is not to be punitive although it may have that effect. Rather, the purpose of sanction is to protect the public, maintain the reputation of the profession and declare and uphold proper standards of conduct and competence. The Panel is mindful that it should impose a sanction, or combination of sanctions necessary to achieve those objectives and in so doing it must balance the public interest with the Respondent's own interests.

In considering sanction, the Panel took into account the following factors: The Respondent has no other disciplinary matters recorded against him. This case does not involve dishonesty, lack of integrity or criminal behaviour, and was not done for financial gain; however it does involve a breach of the technical actuarial standards which in itself is serious. Whilst the Respondent's actions had no long-term material impact and did not lead to a financial loss, they risk harm to the reputation of the profession. The Respondent is an experienced actuary. He held a senior position, where he took responsibility for overseeing

two important pieces of work and co-signing one of them. Although it was reasonable for him to rely on his staff to produce accurate and compliant work, they in turn were entitled to rely on him as a Chief Actuary to assure himself that the Reports met the required standards. The Respondent stated that he had not taken responsibility for reviewing the Capital Report for TAS 100 compliance.

The Respondent had not provided any information about his financial circumstances, nor updated his employment record since leaving Company B in February 2021. However, the Panel accepted that the Respondent had shown some insight and had accepted that there was room for improvement. Nevertheless, the Panel was concerned that the Respondent had not provided any information about steps taken to improve his awareness and understanding of TAS100 and the associated guidance; therefore the Panel was unable to conclude that there was no risk of repetition.

The Panel considered whether this was a case that warranted no sanction, or whether a Reprimand alone would be sufficient to mark the Misconduct, and concluded that the risk of repetition made both of those inappropriate.

The Panel was concerned that the Respondent's failings suggested a lack of understanding of the application in practice of a number of the requirements of TAS100. In addition to breaches found, the Panel was not satisfied that there was sufficient documentation recording peer review and compliance with TAS100.

The Panel consulted the IFoA's Guidance Note on Sanctions involving education, re-training and/or supervised practice. The Panel considered whether the Respondent's failings were so serious that a period of supervised practice was necessary to maintain standards and protect the public. The Panel concluded that, in the absence of any information about the Respondent's current employment that would not be appropriate. The Panel therefore concluded that the Respondent should undertake the following education and/or re-training:

- Review TAS100, the Actuaries Code, APS X2 Review of Actuarial Work, and any other relevant professional guidance;
- Consider carefully how they should be applied in practice to all stages of his work, including planning, undertaking, documenting, peer reviewing and reporting.
- The Respondent is encouraged to utilise the professional skills training available from the IFoA website. He should undertake reflective discussion with peers on best

practice regarding how professional standards and guidance should be applied to his work.

- The Respondent must undertake a minimum of 7 hours of training, separate and additional to the normal continuous professional development activities required of a Fellow, and complete this by 31 August 2022.
- No later than 31 August 2022, the Respondent must advise the IFoA's Head of Legal Services that he has complied with these requirements, including the ways in which he will incorporate this in his work.

In addition, the Panel concluded that a Fine of £4,000 would be appropriate to mark the seriousness of the Respondent's failings particularly in the light of his position and seniority as Chief Actuary in Company A. In reaching this decision the Panel took account of the Indicative Sanctions Guidance, and all other relevant information available. The Panel had no information to suggest that the Respondent would be unable to pay such a fine.

The Panel did not consider it necessary to refer this matter to a Disciplinary Tribunal Hearing.

Publication:

Having taken account of the Disciplinary Board's Publication Guidance Policy (May 2019), the Panel determined that, if the Respondent accepted the findings of the Panel, this determination will be published and remain on the IFoA's website for a period of five years from the date of publication. A brief summary will also be published in the next available edition of *The Actuary* Magazine.

That concludes this determination.