



Institute  
and Faculty  
of Actuaries

# Proposals to amend APS L1: Duties and Responsibilities of Life Assurance Actuaries

by the Regulation Board

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## FOREWORD

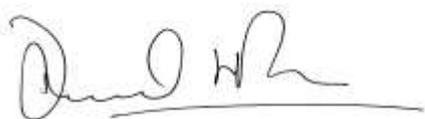
We would like to invite you to participate in this consultation about the Institute and Faculty of Actuaries' (IFoA) proposal to revise APS L1: Duties and Responsibilities of Life Assurance Actuaries to include the regulatory requirements for members carrying out the statutory role of Chief Actuary for UK Life undertakings.

Following two consultations by the IFoA on the introduction of the "Chief Actuary" role by the Prudential Regulation Authority's (PRA) under Solvency II, we have decided to introduce a compulsory Practising Certificate for IFoA members who are approved as "Chief Actuary" in Life undertakings. The criteria for the role were published on the IFoA's website in July 2015 and members were able to submit applications for a Chief Actuary Practising Certificate from 1 September 2015.

The amendments to APS L1 essentially support this decision and the mechanism by which the IFoA will require members who wish to carry out the Chief Actuary function to obtain a Practising Certificate from the IFoA. We plan that APS L1 will come into force on 1 January 2016 to coincide with the inception of Solvency II.

The IFoA's primary aim is to ensure the protection of the public interest by maintaining a proportionate and targeted regulatory framework. We are cognisant that the Chief Actuary function is a significant public interest role and that reliance will be placed on IFoA membership. APS L1 therefore forms part of the measures the IFoA intends to implement to support its members and assure confidence in the actuarial profession as we move towards implementation of the Solvency II regime.

We thank you for taking the time to consider these proposals and look forward to receiving your comments.

A handwritten signature in black ink, appearing to read 'Desmond Hudson', with a horizontal line underneath.

**Desmond Hudson**

**Chair of the Regulation Board of the Institute and Faculty of Actuaries**

## SECTION 1

### Background to the Consultation

The [Solvency II Directive](#)<sup>1</sup> aims to establish a revised set of EU-wide capital requirements, risk management standards and reporting requirements across the 28 European Union (EU) Member States plus three other members of the European Economic Area (EEA), and brings together life assurance and general insurance into a single set of regulations. With the aim of achieving consistency across Europe, the Directive identifies tasks to be performed by certain functions, including the actuarial function, and seeks to ensure that those performing tasks should be “fit” and “proper”.

In April 2014, the IFoA published a [consultation](#), in response to the introduction of the Solvency II Directive. The purpose of that consultation was to canvass views to inform our approach to the regulation of our members who may perform significant functions under the Directive.

In light of the [responses received](#), the IFoA decided to introduce a compulsory Practising Certificate for IFoA members who are approved as “Chief Actuary” under the PRA’s Senior Insurance Mangers Regime in both Life and non-Life undertakings.

A further consultation was published in December 2014 which sought feedback on the details of the proposals, including the impact on those in the Lloyd’s environment. A summary of the consultation responses has been published on the [IFoA’s website](#). The feedback document also sets out the criteria which, having had regard to the responses, we will require applicants to demonstrate.

As noted above, the revised Practising Certificates Scheme was published on the IFoA’s website in July 2015, with applications being accepted from 1 September 2015.

In order to ensure the requirement for members fulfilling the role of Chief Actuary to hold a Practising Certificate is enforceable, it is necessary to incorporate this obligation into an Actuarial Profession Standard (APS). This is similar to the approach taken in relation to other Practising Certificates, for example APS L1 already requires Actuarial Function Holders, With-Profits Actuaries and Reviewing Actuaries to hold the relevant Practising Certificate. This consultation seeks views on the amendments to APS L1 which incorporate the requirements for Chief Actuaries.

The IFoA is consulting separately on proposals to introduce a new Actuarial Profession Standard for General Insurance Actuaries (APS G1: the Chief Actuary in Non-Life Insurance) to incorporate the requirement for members performing the Chief Actuary function in a non-Life undertakings to hold a Practising Certificate. This consultation can be found on the [IFoA’s website](#).

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<sup>1</sup> <http://eur-lex.europa.eu/legal-content/EN/ALL/?isessionid=1B3ZT2SQ3pQlwwX1JZhHRMZGvg25tpBD9LiQnSnWMPpJhvHSLM8xl-482991830?uri=CELEX:32009L0138>

## SECTION 2

### The proposals - draft APS L1

The amendments to APS L1 require members performing the function of a Chief Actuary in Solvency II firms to hold a Chief Actuary (Life) Practising Certificate. In the event that the individual carrying out the function of Chief Actuary is not an actuary, a member who is designated to advise that individual must hold a Chief Actuary (Life) Practising Certificate and comply with the requirements that apply to Chief Actuaries in APS L1.

The following is a summary of the other key provisions of the draft APS:

- a member must have the necessary skill and experience to provide appropriate actuarial advice before accepting an appointment as a Chief Actuary;
- Chief Actuaries must be familiar with the obligations imposed upon them by the PRA's Senior Insurance Managers Regime;
- Chief Actuaries must have regard to generally accepted actuarial practice and, in the event that they significantly depart from this, must disclose their reasons;
- a Chief Actuary must, without delay, notify the PRA in relation to their resignation or termination of their appointment;
- the Chief Actuary must have the right to present a report to the firm's governing body should the Chief Actuary deem the report to be sufficiently important;
- the Chief Actuary must ensure that they have sufficient information and resources to enable the necessary investigations to be carried out;
- the Chief Actuary must use his or her judgement to decide which risks need to be monitored and the frequency of the monitoring and must advise the firm accordingly;
- the Chief Actuary must ensure that the firm's management are aware of his/her interpretation of its obligations to treat customers fairly and policyholders' reasonable expectations;
- Members must communicate clearly to their principal the perspective from which they are providing advice. Specifically, Members must clearly indicate whether advice is being provided from the perspective of compliance with statutory or regulatory obligations or as an employee, director or external adviser.
- the Chief Actuary must be satisfied that systems of control are in place to ensure that the firm's policyholders are not misled as to their expectations.

Sections 9 and 10 of the APS also introduce obligations on the Chief Actuary in relation to their relationship with the With Profits Actuary and the Reviewing Actuary.

It is envisaged that the draft APS encapsulates the key expectations of Chief Actuaries. Members undertaking this role will also be required to adhere to the principles in the Actuaries' Code, principle 4 of which requires members to comply with all relevant legal, regulatory and professional requirements. This includes compliance with legislation and the PRA rules.

We are keen to hear your views on the content, drafting and presentation of APS L1.

The specific criteria that applicants must meet in order to obtain a Practising Certificate are set out in the [Practising Certificates Scheme](#) rather than in the APS. This allows greater flexibility to monitor and revise the criteria to ensure they remain appropriate, proportionate and fit for purpose.

As noted above, we have previously consulted on the decision to introduce a Practising Certificate for the Chief Actuary role and the specific details of this. We have therefore not sought further feedback on these matters in this consultation. Any views on the Practising Certificates regime should be provided to [regulation@actuaries.org.uk](mailto:regulation@actuaries.org.uk).

## SECTION 3

### Questionnaire

We invite your comments on the above proposals. It would be helpful if you would provide your comments by responding to the following questions.

An online version of the questionnaire can be found on the [IFoA's website](#). Survey respondents are encouraged to complete the online survey – even if you need to leave some fields blank. We do appreciate however that some respondents will wish to respond in an alternative form. It would help us if such responses are submitted by email, where possible. Our email address is: [APSL1@actuaries.org.uk](mailto:APSL1@actuaries.org.uk).

#### The following questions about you help us understand who our respondents are

1. **\*About you**

|               |  |
|---------------|--|
| Name          |  |
| Name of firm  |  |
| Position held |  |

2. **\*Are you a member of the Institute and Faculty of Actuaries?**

|     |    |  |
|-----|----|--|
| Yes | No |  |
|-----|----|--|

3. **\*Do you want your name to remain confidential?**

|     |    |  |
|-----|----|--|
| Yes | No |  |
|-----|----|--|

4. **\*Do you want the name of your organisation to remain confidential?**

|     |    |  |
|-----|----|--|
| Yes | No |  |
|-----|----|--|

5. **\*Do you want your comments to remain confidential?**

|     |    |  |
|-----|----|--|
| Yes | No |  |
|-----|----|--|

**\* These questions are compulsory**

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

|           |  |                             |  |
|-----------|--|-----------------------------|--|
| Student   |  | Honorary Fellow             |  |
| Affiliate |  | Student Actuarial Analyst   |  |
| Associate |  | Certified Actuarial Analyst |  |
| Fellow    |  |                             |  |

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

|                            |  |                 |  |
|----------------------------|--|-----------------|--|
| Life                       |  | Health and Care |  |
| General Insurance          |  | Education       |  |
| Pensions                   |  | Retired         |  |
| Finance and Investment     |  | Other           |  |
| Enterprise Risk Management |  |                 |  |
| If other (please specify)  |  |                 |  |

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

|                          |  |                          |  |
|--------------------------|--|--------------------------|--|
| If yes, go to question 9 |  | If no, go to question 10 |  |
|--------------------------|--|--------------------------|--|

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

|          |  |  |
|----------|--|--|
| Pensions |  |  |
| Life     |  |  |
| Lloyd's  |  |  |

10. What type of organisation do you work for?

|                            |  |                 |  |
|----------------------------|--|-----------------|--|
| Actuarial Consultancy      |  | Bank            |  |
| Life Insurance Company     |  | Investment Firm |  |
| Non-Life Insurance Company |  | Other           |  |
| Lloyd's Managing Agent     |  |                 |  |
| If other (please specify)  |  |                 |  |

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

|                             |                             |  |
|-----------------------------|-----------------------------|--|
| Sole practitioner           | 26-40 Fellows or Associates |  |
| 2-10 Fellows or Associates  | 40+ Fellows or Associates   |  |
| 11-25 Fellows or Associates | Not applicable              |  |

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

|                |                      |  |
|----------------|----------------------|--|
| Personal views | Organisation's views |  |
|----------------|----------------------|--|

**The following questions are in relation to your views on the consultation paper**

13. Do you have any comments on the requirements and provisions for Chief Actuaries as set out in the draft APS L1?

|          |    |  |
|----------|----|--|
| Yes      | No |  |
| Comments |    |  |

14. Do you think that any additional obligations for Chief Actuaries should be included in APS L1? If so, please provide details.

|          |    |  |
|----------|----|--|
| Yes      | No |  |
| Comments |    |  |

15. Do you think the obligations of Chief Actuaries are clearly set out in APS L1?

|          |    |  |
|----------|----|--|
| Yes      | No |  |
| Comments |    |  |

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

|          |
|----------|
| Comments |
|----------|

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

|                           |                          |  |
|---------------------------|--------------------------|--|
| If yes, go to question 18 | If no, go to question 19 |  |
|---------------------------|--------------------------|--|

**18. If so, what should this guidance/training include?**

|  |
|--|
|  |
|--|

**19. Do you have any other comments on APS L1?**

|          |    |  |
|----------|----|--|
| Yes      | No |  |
| Comments |    |  |

**20. Do you have any other comments on the proposals or wish to add anything to inform our thinking?**

|          |    |  |
|----------|----|--|
| Yes      | No |  |
| Comments |    |  |

## SECTION 4

### How to respond to this Consultation

The deadline for responses is **4 November 2015**.

A link to the [APS L1 questionnaire](#) can be found on the IFoA's website.

Responses may also be sent to [APSL1@actuaries.org.uk](mailto:APSL1@actuaries.org.uk) or by post to:

#### APS L1 Consultation

The Institute and Faculty of Actuaries

Level 2

Exchange Crescent

7 Conference Square

Edinburgh

EH3 8RA

#### Collation of results, analysis and publication

The survey responses will be collated by the IFoA Executive and then shared with the Working Party and/or the Regulation Board. A list of respondents and responses may be published by the IFoA in its feedback document. Please set out clearly if you do not wish your name and/or response to be published. Responses will not be personally attributed to any particular respondent. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.

#### Consultation Meetings

We also encourage members and interested stakeholders to attend one or other of the following two consultation meetings to discuss and comment on these proposals:

The first meeting will be held in Edinburgh from 17:30 on **28 September 2015**. Refreshments will be served from 17:00: and

The second will be held in London from 17:30 on **30 September 2015**. Refreshments will be served from 17:00. Further details about both meetings can be found on the IFoA [website](#).

In order to gauge participant numbers, we should be grateful if you would please contact us at: <http://www.actuaries.org.uk/events> if you are planning to attend either of these meetings.

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## **SECTION 5**

### **Continuing Professional Development**

IFoA members may be entitled to claim CPD hours for reading this consultation paper and completing the relevant questionnaire. Please check the [CPD scheme](#) for your particular category recording and eligibility requirements.

Thank you for your time and interest.

## APS L1: DUTIES AND RESPONSIBILITIES OF LIFE ASSURANCE ACTUARIES

|                         |  |
|-------------------------|--|
| <b>Author:</b>          | Life Board   |
| <b>Status:</b>          | Approved under the Standards Approval Process  |
| <b>Version:</b>         | 2.0, effective 1 January 2016  |
| <b>To be reviewed:</b>  | No later than 31 December 2016   |
| <b>Purpose:</b>         | To set out the requirements for actuaries carrying out the statutory roles of <b>Chief Actuary</b> for long term business in a Solvency II firm, <b>Actuarial Function Holder</b> , <b>With-Profits Actuary</b> , <b>Reviewing Actuary</b> and <b>Appropriate Actuary</b> for <b>Firms</b> transacting long term insurance business, and the relationships between them and the <b>Members</b> who support those role holders. |
| <b>Authority:</b>       | The Institute and Faculty of Actuaries   |
| <b>Target Audience:</b> | <b>Chief Actuaries, Actuarial Function Holders, With-Profits Actuaries, Appropriate Actuaries, and Reviewing Actuaries</b> , appointed by or in respect of UK authorised insurance companies and friendly societies writing long-term insurance business. <b>Members</b> who support those role holders.   |

### General Professional Obligations:

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

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

**Members** are required to comply with all applicable provisions of **APSS**.

In the event of any inconsistency between this **APS** and the Actuaries' Code, the Code prevails.

### Use of the words "must" and "should":

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

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

## 1. Introduction

- 1.1. In this **APS**, requirements of legislation or of **FCA** or **PRA** rules and expectations are specifically referred to as such. The inclusion of summarised references to, or quotations from, particular provisions of the **Handbooks** is not a substitute for referring to the **Handbooks**.
- 1.2. The responsibilities of **Members** to whom this **APS** applies are central to the financial soundness of the long-term insurance business of the **Firms** in respect of which they act, and to the fair treatment of policyholders. **Members** who support the various named role holders should be aware of the responsibilities of those other **Members** when assisting them.
- 1.3. A **Member** must not accept an appointment as **Chief Actuary**, **Actuarial Function Holder** or **With-Profits Actuary** if he/she does not have the necessary skill and experience to provide appropriate actuarial advice. Similar considerations apply within the **FCA** and **PRA** rules applying to **Approved Persons**. The requirement to have the necessary skill and experience also applies to the role of the **Reviewing Actuary** and the role of the **Appropriate Actuary**.
- 1.4. Before taking up an appointment, a **Member** must ensure that the relevant requirements of the Actuaries' Code have been met, including the need to consider a discussion with his/her immediate predecessor, if any.
- 1.5. **Members** must communicate clearly to their principal the perspective from which they are providing advice. Specifically, Members must clearly indicate whether advice is being provided from the perspective of compliance with statutory or regulatory obligations or as an employee, director or external adviser.

## 2. General Obligations

- 2.1. **Chief Actuaries** and **With-Profits Actuaries** in a **Solvency II firm** are subject to the **PRA's Senior Insurance Managers Regime** and **Members** who are **Chief Actuaries** must be familiar with the obligations this imposes on them. **Actuarial Function Holders** and **With-Profits Actuaries** (other than those appointed by the **PRA** for **Firms**, unless that appointment is confirmed by the **Firm**) are **Approved Persons** and must be familiar with the obligations which this imposes on them. In particular, they must be aware of the extent to which the **Statements of Principle** and the **PRA** conduct rules go beyond the specific requirements applying to **Actuarial Function Holders** and **With-Profits Actuaries** and must act in accordance with them. Some of the requirements of this **APS** may contribute towards compliance with some aspects of **APER** and from 7 March 2016 the **PRA** conduct rules; however this is a matter for the individual **Approved Person** to determine and no guidance on this is provided.
- 2.2. **Chief Actuaries**, **Actuarial Function Holders**, **With-Profits Actuaries** and **Appropriate Actuaries** are required to pay due regard to generally accepted actuarial practice. The **TASs**, the Actuaries' Code and **APSs** establish some elements of generally accepted practice. Such actuaries must also consider whether there are any other practices that may be non-mandatory but still considered as generally accepted actuarial practice.
- 2.3. If a **Member** adopts a practice which is significantly different from non-mandatory generally accepted actuarial practice, then the **Member** must disclose the reasons for the practice actually

adopted. In this context “significant” refers to the effect of the practice on the results. A major difference in practice on an item which is trivial in its effect is not significant for this purpose.

2.4 **Chief Actuaries** who are **Members**, **Actuarial Function Holders**, **With-Profits Actuaries** and **Appropriate Actuaries** are required by section 344 of the **Act** to communicate particular matters to the relevant body (either the **FCA** or **PRA**, as appropriate), and other matters as required by the **Regulations**. The requirements under section 344 are to notify the relevant body (the **FCA** and/or **PRA**, as appropriate) without delay:

2.4.1 when they resign;

2.4.2 when their appointment is terminated or not renewed; or

2.4.3 of any matters connected with the cessation of their appointment which they think ought to be brought to its attention, or that there is no such matter.

Guidance on applying the requirements of the **Regulations** is given in **APS L2** and holders of these roles must be familiar with its contents.

2.5 **Chief Actuaries** who are **Members** are required by **PRA** and **FCA** conduct rules to disclose any information of which the **PRA** or **FCA** would reasonably expect notice.

### 3. The Chief Actuary for long term business in a Solvency II firm

3.1. The **Chief Actuary** must hold a **Chief Actuary (Life) Practising Certificate** if he/she is a **Member**.

3.2. Where the **Chief Actuary’s** responsibilities are outsourced to a **Member** or where a **Member** who is not the **Chief Actuary** but who is taking significant responsibility internally, then that individual must hold a **Chief Actuary (Life) Practising Certificate**.

3.3. When accepting an appointment as **Chief Actuary**, a **Member** must ensure that he/she has the right to present a report to the **Firm’s Governing Body** in person, should he/she deem the report sufficiently important.

3.4. The **Chief Actuary** must

3.4.1. ensure that he/she has sufficient information and resources to enable the necessary investigations to be carried out and the opinions to be provided both at the time of the appointment and thereafter; and

3.4.1 use his/her judgment to decide which risks need to be monitored, and the frequency with which they should be monitored and advise the **Firm** accordingly.

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

3.5. For **With-Profits Business**, the **With-Profits Actuary** must advise the **Firm** on key aspects of discretion. The **Chief Actuary** must liaise with the **With-Profits Actuary** to ensure he/she is aware of such advice given by the **With-Profits Actuary** and of relevant decisions taken by the **Firm** insofar as they affect liabilities to policyholders.

3.6. The **Chief Actuary** must ensure that the **Firm's** management are aware at all times of his/her interpretation of its:

3.6.1. obligations to treat its customers fairly; and

3.6.2. policyholders' reasonable expectations

which need to be taken into account in assessing the calculation of the technical provisions and capital requirements other than where the matter is covered by the responsibilities of the **With-Profits Actuary**. This interpretation must have regard to the nature of the **Firm's** practices and business plans and its approach to the treatment of policyholders both individually and (where appropriate) collectively as a group vis-à-vis shareholders.

3.7. When a significant change is likely to take place in the **Firm's** business plans, practices or other circumstances, the **Chief Actuary** must take all reasonable steps to ensure that the **Firm** appreciates the implications for fairness and the reasonable expectations of its policyholders which need to be taken into account in assessing the liabilities, other than where the matter is covered by the responsibilities of the **With-Profits Actuary**.

3.8. The **Chief Actuary** must also satisfy himself/herself that systems of control are in place intended to ensure that the **Firm's** policyholders are not misled as to their expectations. If the **Chief Actuary** believes that the systems of control may not be adequate, he/she must draw this to the **Firm's** attention and advise the **Governing Body**, unless sufficient steps are otherwise taken to meet his/her concerns.

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

#### 4. The Actuarial Function Holder

4.1. The **Actuarial Function Holder** must hold an **Actuarial Function Holder/Reviewing Actuary Practising Certificate**.

4.2. Non-Solvency II firms – Actuarial requirements 2.1 allows a firm to appoint more than one **Actuarial Function Holder**, each in respect of one or more classes of business. Where this is the case, each **Actuarial Function Holder** must:

4.2.1 follow this **APS** in respect of the class (or classes) of business in respect of which he/she has been appointed; and

4.2.2. seek written confirmation from the **Governing Body** which specifies in respect of which classes of business he/she is appointed.

- 4.3. When accepting an appointment as an **Actuarial Function Holder**, a **Member** must ensure that he/she has the right to present a report to the **Firm's Governing Body** in person, should he/she deem the report sufficiently important.
- 4.4. As the **PRA Rulebook** does not require the **Firm** to pro-actively supply the **Actuarial Function Holder** with information, in order to provide the advice on risk and the monitoring of exposures required by Non-Solvency II firms – Actuarial requirements 5.1 the **Actuarial Function Holder** must:
- 4.4.1. ensure that he/she has sufficient information and resources to enable the necessary investigations to be carried out, both at the time of the appointment and thereafter; and
- 4.4.2. use his/her judgment to decide which risks need to be monitored, and the frequency with which they should be monitored and advise the **Firm** accordingly.

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

- 4.5. Where there is more than one **Actuarial Function Holder** within a given **Firm**, it may not be possible for the requirements described in Non-Solvency II firms – Actuarial requirements 5.1 above to be carried out separately by each such **Member**. This is particularly the case where they are appointed in respect of different classes of business within the same long-term insurance fund. In such a case, each **Actuarial Function Holder** must ensure, before accepting the appointment, that the **Firm** allocates to one of them, or to each of them acting collectively, the responsibility described in Non-Solvency II firms – Actuarial requirements 5.1 in relation to the **Firm** as a whole.
- 4.6. For **With-Profits Business**, the **With-Profits Actuary** must advise the **Firm** on key aspects of discretion. The **Actuarial Function Holder** must liaise with the **With-Profits Actuary** to ensure he/she is aware of such advice given by the **With-Profits Actuary** and of relevant decisions taken by the **Firm** insofar as they affect liabilities to policyholders.
- 4.7. The **Actuarial Function Holder** must ensure that the **Firm's** management are aware at all times of his/her interpretations of its:
- 4.7.1. obligations to treat its customers fairly; and
- 4.7.2. policyholders' reasonable expectations

which need to be taken into account in assessing the liabilities, other than where the matter is covered by the responsibilities of the **With-Profits Actuary**. This interpretation must have regard to the nature of the **Firm's** practices and business plans and its approach to the treatment of policyholders both individually and (where appropriate) collectively as a group vis-à-vis shareholders.

- 4.8. When a significant change is likely to take place in the **Firm's** business plans, practices or other circumstances, the **Actuarial Function Holder** must take all reasonable steps to ensure that the **Firm** appreciates the implications for fairness and the reasonable expectations of its policyholders which need to be taken into account in assessing the liabilities, other than where the matter is covered by the responsibilities of the **With-Profits Actuary**.

- 4.9. The **Actuarial Function Holder** must also satisfy himself/herself that systems of control are in place intended to ensure that the **Firm's** policyholders are not misled as to their expectations. If the **Actuarial Function Holder** believes that the systems of control may be not be adequate, he/she must draw this to the **Firm's** attention and advise the **Governing Body**, unless sufficient steps are otherwise taken to meet his/her concerns.
- 4.10. If a **Firm** requires a **Member** to produce work which the **Member** believes conflicts with the requirements in the **Handbooks** and/or a **TAS**, the **Member** may do so provided that the work clearly and unambiguously states that the **Member** has done so under instructions and that the work does not conform with the requirements in the **Handbooks** and/or the **TAS(s)** as applicable. The adoption of such resulting technical provisions or resilience capital requirement will create a situation where the **Member** producing the work will be required to report the matter to the relevant body (the **FCA** and/or **PRA**, as appropriate) in accordance with the **Regulations**.

## 5. The With-Profits Actuary

- 5.1. The **With-Profits Actuary** must hold a **With-Profits Actuary Practising Certificate**.
- 5.2. Solvency II firms – Actuaries 2.2, and Non-Solvency II firms – Actuarial requirements 2.1 allows a **Firm** to appoint more than one **With-Profits Actuary**, each in respect of one or more classes of business. However, because there can be conflicts of interest between different classes of business, a **Member** must, before accepting an appointment, have regard to the following:
- 5.2.1. where a **Firm** has more than one **With-Profits Fund**, it will normally be unacceptable for a **Member** to accept an appointment as a **With-Profits Actuary** for some but not all of the **With-Profits Funds** unless the:
- 5.2.1.1. **Principles and Practices of Financial Management** of the funds adequately describe the way in which the exercise of discretion impacts on the interaction between the different funds;
- 5.2.1.2. extent to which such interactions from the exercise of discretion impact on **With-Profits Policyholders** is unlikely to be significant; and
- 5.2.1.3. terms of reference of the appointment allow him/her to discuss freely with the other **With-Profits Actuaries** appointed by the **Firm** the operation of all of its **With-Profits Funds**, and to have access to their written advice to the **Firm**;
- and
- 5.2.2. a **Member** must not accept an appointment as a **With-Profits Actuary** in respect of only some of the classes of business in any one **With-Profits Fund**.
- 5.3. The **With-Profits Actuary** must seek to ensure:
- 5.3.1. through appropriate wording in his/her terms of engagement or otherwise, that he/she will receive, on a timely basis, copies of all papers issued to members of the **Governing Body** or other significant bodies that are relevant to the management of the **With-Profits Fund**;

- 5.3.2. through appropriate wording in his/her terms of engagement or otherwise that he/she will have the opportunity to comment on any material communications or reports issued or made available by the **Firm** to its policyholders generally, or to particular classes of policyholders (or their advisers) that relate to the **Firm's** exercise of discretion affecting its **With-Profits Business**; and
- 5.3.3. that he/she should, as far as is reasonably possible, be made aware, in time to be able to comment on them before issue, of any such communications or reports which could significantly affect the readers' understanding of the **Firm's** past or future exercise of discretion affecting its **With-Profits Business**.
- 5.4. The **With-Profits Actuary** must draw the attention of the management of the **Firm** at the appropriate level of seniority, to any circumstances in which he/she believes that a communication should be issued by the **Firm** to the **Firm's With-Profits Policyholders**, or a particular class of such policyholders.
- 5.5. The **With-Profits Actuary** must give advice to a **Firm** on the future exercise of discretion affecting its **With-Profits Business** whenever:
  - 5.5.1. the **Firm** requests it;
  - 5.5.2. he/she considers that, in any respect, a proposed exercise of discretion would be inconsistent with the **Firm's Principles and Practices of Financial Management**;
  - 5.5.3. he/she considers that the **Firm's Principles and Practices of Financial Management** have become inappropriate;
  - 5.5.4. the steps the **Firm** proposes to take in order to demonstrate its ability to meet its regulatory capital requirements raises particular issues relating to the exercise of discretion affecting those classes of the **With-Profits Business** of the **Firm** in respect of which he/she has been appointed; or
  - 5.5.5. he/she considers that the interests of the **With-Profit Policyholders** require it.
- 5.6. Where, in the **With-Profits Actuary's** opinion, there is uncertainty regarding the extent to which the **Governing Body** can exercise discretion when allocating surplus, he/she must state in his/her report or advice:
  - 5.6.1. the nature of the uncertainty;
  - 5.6.2. the assumptions he/she has made with regard to the uncertainty;
  - 5.6.3. the consequences were the uncertainty to be resolved differently;
  - 5.6.4. if appropriate, that the **Firm**, if it has not already done so, seek legal advice with regards to the uncertainty;
  - 5.6.5. the extent to which he/she has relied upon any legal advice concerning that uncertainty that the **Firm** has received; and

- 5.6.6. whether in his/her opinion there is any conflict between any legal advice concerning that uncertainty that the **Firm** has received, and his/her interpretation of the fair treatment of the **Firm's With-Profits Policyholders** having particular regard to the **Firm's Principles and Practices of Financial Management**.

## 6. The Appropriate Actuary

- 6.1. The **Appropriate Actuary** must hold an **Actuarial Function/Reviewing Actuary Practising Certificate**. The duties of the **Appropriate Actuary** may include advising the firm on the distribution of surplus. In this case he/she must ensure that they have the appropriate experience to do so.
- 6.2. When accepting an appointment as an **Appropriate Actuary**, a **Member** must ensure that he/she has:
- 6.2.1. the right to present a report to the **Firm's Governing Body** in person, should he/she deem the report sufficiently important; and
- 6.2.2. sufficient information and resources to enable the necessary investigations to be carried out. This applies both at the time of the appointment and thereafter.

## 7. The Reviewing Actuary appointed by virtue of IPRU (INS) 9.35

- 7.1. The **Reviewing Actuary** must hold an **Actuarial Function Holder/Reviewing Actuary Practising Certificate**.
- 7.2. The **Reviewing Actuary** must carry out his/her duties in a manner agreed with the auditor of the entity being audited and must comply with the Actuaries' Code.
- 7.3. This **APS** applies both to cases where the **Reviewing Actuary** is employed by, or is a partner in, the audit firm and where this is not the case.
- 7.4. The auditor is responsible for determining the scope of the audit. However, the **Reviewing Actuary** must advise the auditor of the implications if the scope is narrower than one expected by the **Reviewing Actuary**. Any limitations in scope should be set out in the **Reviewing Actuary's** report to the auditor.
- 7.5. The **Reviewing Actuary** is required by **IPRU-INS 9.35 (1A)** or **IPRU-F SOC 5.11 (1A)** as appropriate to be independent of the **Firm**. The **Reviewing Actuary** must discuss the auditor's independence requirements with them.
- 7.6. When providing advice to the auditor, the **Reviewing Actuary** must:
- 7.6.1. ensure that it is clear when he/she is acting in a formal capacity as the **Reviewing Actuary**;

- 7.6.2. in respect of the items within scope, advise the auditor on the methods and assumptions used by the **Firm** and, in particular, on whether they comply with the requirements of **INSPRU** 1.2 and, if relevant, **INSPRU** 1.3 (which includes the requirements in respect of generally accepted actuarial practice); and
- 7.6.3. establish with the auditor the approach that the auditor will be taking to auditing items that are important inputs to the actuarial valuation such as assets, policy data, results of experience investigations and expense analysis.

## 8. Possible conflicts of interest

- 8.1 **Chief Actuaries** who are **Members, Actuarial Function Holders, With-Profits Actuaries** and **Appropriate Actuaries** are reminded of their obligations under Solvency II firms - Actuaries 6, Non-Solvency II firms Actuarial Requirements 8, and Article 258 (5) of the Solvency II Delegated Regulation and the Actuaries' Code in relation to objectivity and conflicts of interest.
- 8.2 Additionally, a **Member** must not perform conflicting roles in contravention of Solvency II firms – Actuaries 4, Non-Solvency II firms Actuarial Requirements 4, or the requirements in Article 258 of the Solvency II Delegated Regulation. This would mean, for example, that a **Member** appointed to be a **With-Profits Actuary** under Solvency II firms – Actuaries 2.2, or Non-Solvency II firms – Actuarial requirements 2.1) should not also be the Chief Financial Officer (even if not a member of the **Governing Body**) in a proprietary **Firm**. Furthermore, a **Member** must not perform a role for a parent of the **Firm** which, if it were performed for the **Firm**, would give rise to a conflict of interest in contravention of Solvency II firms – Actuaries 4, Non-Solvency II firms - Actuarial Requirements 4, or the requirements in Article 258 of the Solvency II Delegated Regulation.
- 8.3 Provided a **Member** is not a director of the **Firm** (or of any parent of the **Firm**), then the same individual may be both a **Chief Actuary/Actuarial Function Holder** and a **With-Profits Actuary** of the **Firm**.
- 8.4 Nevertheless, if that is the case, there could be a risk of situations arising which are, or could appear to be, conflicts of interest. The reporting line of the **With-Profits Actuary** could also give rise to such a risk, for example, if it is to the **Chief Actuary/Actuarial Function Holder** or another director of the **Firm**, or of any part of its group other than a subsidiary undertaking with conflicting responsibilities. If, in these circumstances, a **With-Profits Actuary** has any doubt about being free from unacceptable conflicts of interest, whether real or apparent, he/she should consult an independent **Member**.
- 8.5 However, it would not normally be necessary to consult where the:
  - 8.1.1. matter is neutral for **With-Profits Policyholders** in aggregate; or
  - 8.1.2. sums involved are not significant in the context of the size of the **With-Profits Fund**.
- 8.6 There may be occasions when the **Governing Body** requests advice from the **With-Profits Actuary** which might conflict with that role. If this occurs, the procedures set out in the Actuaries' Code apply.

## 9. Relationship between the Chief Actuary / Actuarial Function Holder and the With-Profits Actuary

- 9.1. If the roles of **Chief Actuary/Actuarial Function Holder** and **With-Profits Actuary** are combined, a **Member** must ensure that the **Governing Body** is aware of the particular role in which the **Member** is acting when presenting advice to it.
- 9.2. Where the roles of **Chief Actuary/Actuarial Function Holder** and the **With-Profits Actuary** are undertaken by different actuaries, each **Member** must ensure that:
  - 9.2.1. he/she is aware of the work carried out by and opinions of the other **Member**; and
  - 9.2.2. his/her terms of reference allow regular, direct contact with the other **Member**.
- 9.3. The **Chief Actuary/Actuarial Function Holder** must take account of the **Firm's** interpretation of its obligations to policyholders in respect of discretionary benefits on **With-Profits Business**. However, as this interpretation is only guided by the advice of the **With-Profits Actuary**, the **Chief Actuary/Actuarial Function Holder** must not assume that the advice of the **With-Profits Actuary** will automatically be accepted.
- 9.4. The **Chief Actuary/Actuarial Function Holder** must satisfy himself/herself directly that the valuation recommendations made in respect of discretionary payments are appropriate in light of any obligations implied by the **Principles and Practices of Financial Management**.
- 9.5. The **With-Profits Actuary** must ensure that he/she is fully aware of the implications for capital requirements of the **Firm** of any recommendations on the exercise of discretion in respect of **With-Profits Policies** which he/she makes or on which he/she expresses an opinion. The **With-Profits Actuary** should seek the relevant **Chief Actuary/Actuarial Function Holder's** opinion in this regard and to ensure that any actuarial models upon which he/she intends to base advice use assumptions consistent with those used by the **Firm** in its modelling (or that the implications of any differences are explained to the **Governing Body**).
- 9.6. Where the calculation of asset shares is not the direct responsibility of the **With-Profits Actuary**, that actuary must ensure that he/she is familiar with the process and that the process is in line with the **Firm's Principles and Practices of Financial Management**.
- 9.7. The **Chief Actuary/Actuarial Function Holder** and the **With-Profits Actuary** are entitled (under section 341 of the **Act**) "to require from the authorised person's officers such information and explanations as he reasonably considers necessary for the performance of his duties as auditor or actuary", and similarly for Solvency II firms through the provisions of Articles 258 and 268 of the Solvency II Delegated Regulation. Each of them must, using the power if necessary require access to any items prepared by the other necessary to meet the requirements of this **APS**.

## 10. Relationship between the Chief Actuary / Actuarial Function Holder and the Reviewing Actuary

- 10.1. When carrying out the **Chief Actuary/Actuarial Function Holder's** duties, it is inappropriate to rely on the checks or opinions of the **Reviewing Actuary**. The **Chief Actuary / Actuarial Function Holder** may seek the **Reviewing Actuary's** opinion in the course of carrying out the role, but it remains a professional obligation for the **Chief Actuary / Actuarial Function Holder** to be satisfied personally on all relevant points.

## 11. Definitions

| Term   | Definition   |
|--|--|
| Act  | Financial Services and Markets Act 2000 as may be amended from time to time  |
| Actuarial Function Holder  | A Fellow of the Institute and Faculty of Actuaries appointed by (or by the <b>PRA</b> for) a <b>Firm</b> in accordance with Non-Solvency II firms - Actuarial Requirements 2.1 or 2.3 in the <b>PRA Rulebook</b> to perform the role specified in Non-Solvency II firms - Actuarial Requirements 5.1   |
| Actuarial Function Holder/Reviewing Actuary Practising Certificate | A certificate issued by the IFoA on application by a <b>Member</b> who wishes to hold a position as an <b>Actuarial Function Holder</b> or <b>Reviewing Actuary</b>  |
| APER   | The parts of the <b>FCA Handbook</b> on High Level Standards which have the title Statements of Principle and Code of Practice for <b>Approved Persons</b>   |
| Appropriate Actuary  | A Fellow of the Institute and Faculty of Actuaries appointed by a <b>Friendly Society</b> in accordance with Non-Solvency II firms - Actuarial Requirements 7 of the <b>PRA Rulebook</b>   |
| Approved Person  | A person in relation to whom the relevant body (the <b>FCA</b> and/or <b>PRA</b> , as appropriate) has given its approval under section 59 of the Act (Approval for particular arrangements) for the performance of a controlled function  |
| APS  | Actuarial Professional Standard  |
| APS L2   | APS L2: The Financial Services and Markets Act 2000 (Communications by Actuaries) Regulations 2003   |
| Chief Actuary  | The person appointed to have responsibility for the Chief Actuary function (as defined in Rule 7.1 of the PRA Rulebook: Solvency II Firms: Senior Insurance Managers Regime (No.2) Instrument 2015) for long term business within a Solvency II firm, including any <b>Member</b> to whom the Chief Actuary function is outsourced or delegated. |
| Chief Actuary (Life) Practising Certificate                        | A certificate issued by the Institute and Faculty of Actuaries on application by a Member  |

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| FCA  | Financial Conduct Authority (or its successor)  |
| FCA Handbook                                     | The handbook issued by the <b>FCA</b>   |
| Firm   | An insurance company or Friendly Society in respect of which the actuary is appointed   |
| FRC  | The Financial Reporting Council   |
| Friendly Society                                 | An incorporated friendly society or a registered friendly society   |
| Governing Body                                   | The board of directors or committee of management of a <b>Firm</b>  |
| Handbooks  | The <b>FCA Handbook</b> and the <b>PRA Rulebook</b>   |
| INSPRU   | The Prudential sourcebook for Insurers  |
| IPRU-FSOC  | The Interim Prudential Sourcebook for Friendly Societies  |
| IPRU-INS   | The Interim Prudential Sourcebook for Insurers  |
| Member   | A member of the Institute and Faculty of Actuaries  |
| Principles and Practices of Financial Management | These are the Principles and Practices of Financial Management, containing with-profits principles and with-profits practices, which a <b>Firm</b> carrying on <b>With-Profits Business</b> must establish, maintain and record under the Conduct of Business Sourcebook (COBS 20.3) (Principles and Practices of Financial Management) |
| PRA  | The Prudential Regulation Authority (or its successor)  |
| PRA Rulebook                                     | The rulebook issued by the <b>PRA</b>   |
| Regulations                                      | The Financial Services and Markets Act 2000 (Communications by Actuaries) Regulations 2003, as may be amended from time to time   |
| Reviewing Actuary                                | An actuary independent of a <b>Firm</b> from whom <b>IPRU-INS 9.35(1A)</b> requires the <b>Firm's</b> auditor to take appropriate advice  |

|   |   |
|---|---|
| Senior Insurance Managers Regime            | The regime brought into force by the <b>PRA Rulebook</b> : Solvency II Firms: Senior Insurance Managers Regime (No2) Instrument 2015  |
| Solvency II Firm                            | A firm satisfying Insurance General Application 2.1   |
| Statements of Principle                     | Statements of Principle issued by the <b>FCA</b> under section 64(1) of the Act (Conduct: Statements and codes) with respect to the conduct of <b>Approved Persons</b> and set out in APER  |
| TASs  | Technical Actuarial Standards issued by the <b>FRC</b>  |
| With-Profits Actuary                        | A Fellow of the Institute and Faculty of Actuaries appointed by (or by the <b>PRA</b> for) a <b>Firm</b> in accordance with Solvency II firms – Actuaries 2.2 or 2.4 to perform the role in 5.1, or Non-Solvency II firms – Actuarial requirements 2.1 or 2.3 to perform the role in 6.1  |
| With-Profits Actuary Practising Certificate | A certificate issued by the Institute and Faculty of Actuaries on application by a <b>Member</b> who wishes to hold a position as <b>With-Profits Actuary</b>   |
| With-Profits Business                       | Any business of an insurer that may affect the amount or value of the assets comprising a <b>With-Profits Fund</b>  |
| With-Profits Policyholder                   | A policyholder under a <b>With-Profits Policy</b>   |
| With-Profits Policy                         | A contract falling within a class of long-term insurance business which is eligible to participate in any of the established surplus  |
| With-Profits Fund                           | Means (Except in <b>INSPRU</b> ): <ul style="list-style-type: none"> <li>(a) a long-term insurance fund (or that part of such a fund) in which policyholders are eligible to participate in any established surplus; and</li> <li>(b) where it is an insurer's usual practice to restrict policyholders' participation in any established surplus to that arising from only a part of the fund (or part fund) falling within (a), that part (or that part of the part fund)</li> </ul> <p>Means for the purposes of <b>INSPRU</b>, a long-term insurance fund in which policyholders are eligible to participate in any established surplus</p> |