



Institute
and Faculty
of Actuaries

The regulation of actuarial roles under the Solvency II regime

Consultation paper
Issued by the Regulation Board

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I would like to invite you to participate in this consultation about the Institute and Faculty of Actuaries' proposed approach to the regulation of roles that our members may perform under the Solvency II [Directive](#)¹.

SECTION 1

1. Background to the Consultation

- 1.1 In response to the changing regulatory regime that the introduction of Solvency II brings, the Institute and Faculty of Actuaries (IFoA) is determining which form of regulation is appropriate for IFoA members who perform certain key functions.
- 1.2 Whilst the Prudential Regulation Authority (PRA) will set the regulatory framework for firms and the Financial Reporting Council (FRC) any relevant technical standards for actuaries within the UK environment, the IFoA is responsible for setting an appropriate ethical framework for its members wherever in the world they are working and for ensuring that a well-functioning disciplinary scheme is in place to deal with any circumstances where those members fail to meet the standards expected of them.
- 1.3 The IFoA's approach is underpinned by our Royal Charter, which requires us to regulate the actuarial profession in the public interest. We therefore aim to establish a proportionate, risk-focused and suitably targeted regulatory framework to support the functions that we recognise our members will fulfil under the Solvency II regime. These proposals are designed, within the context of our wider regulatory framework, to help underpin our collective commitment to quality in relation to actuarial work.
- 1.4 This consultation paper sets out a number of possible options which would enable us to achieve that framework. It covers a number of senior roles but, for the avoidance of doubt, it is not intended to apply to members holding roles as non-executive directors in insurance companies. We hope that the responses will help the IFoA to identify all possible benefits, and any potential issues, that would be associated with each of the approaches outlined in Section 3 below, and hence allow us to come to a view about the most appropriate regulatory regime. To this end, a number of open questions are asked and I would encourage you to please provide comments to support your answers.
- 1.5 In addition to responses from IFoA members, we are particularly keen to hear from those who make use of actuaries and their advice, such as insurance company boards. We would also, of course, be pleased to hear from fellow regulators.
- 1.6 The IFoA intends to update its regime in time for the inception of Solvency II on 1 January 2016.
- 1.7 I thank you for taking the time to consider these proposals and look forward to receiving your comments.

Desmond Hudson
Chairman of the Regulation Board
April 2014

¹ <http://eur-lex.europa.eu/legal-content/EN/ALL/?jsessionid=1B3ZT2SQ3pQlwyX1JZhHRMZGyq25tpBD9LjQnSnWMPpJhvHSLM8x!-482991830?uri=CELEX:32009L0138>

SECTION 2

2. The impact of Solvency II on the roles of actuaries

A. Requirements under the Solvency II regime

- 2.1 The Solvency II Directive 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 of the European Economic Area (EEA) countries and brings together life assurance and general insurance into a single set of regulations.
- 2.2 For the UK, the new regime will apply to all insurance firms with gross premium income exceeding €5m and gross technical provisions in excess of €25m. The provisions will also apply to the association of underwriters known as Lloyd's where a single collective authorisation will be granted that applies to all Lloyd's members.
- 2.3 Solvency II aims to achieve consistency across Europe and identifies tasks to be performed by the risk management function, the compliance function, the internal audit function and the actuarial function requiring that firms ensure that those who perform these tasks should be "fit" and "proper".
- 2.4 In particular, Article 42 of the Solvency II Directive provides:

"Insurance and reinsurance undertakings shall ensure that all persons who effectively run the undertaking or have other key functions at all times fulfil the following requirements:

- (a) *their professional qualifications, knowledge and experience are adequate to enable sound and prudent management (fit); and*
- (b) *they are of good repute and integrity (proper)."*

Actuaries are likely to play important roles in all of the above functions but will be especially key to the actuarial function where Article 48 goes on to state:

"The actuarial function shall be carried out by persons who have knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the business of the insurance or reinsurance undertaking, and who are able to demonstrate their relevant experience with applicable professional and other standards."

- 2.5 The Prudential Regulation Authority (PRA) has outlined in its "...approach to insurance supervision" published in April 2013 the manner in which it expects to ensure that insurance company boards appoint appropriately qualified individuals to senior roles, including the heads of key functions:
<http://www.bankofengland.co.uk/publications/Documents/praapproach/insuranceappr1304.pdf>
- 2.6 Furthermore in the Supervisory Statement SS4/13, the PRA has outlined the steps it expects firms to be taking to prepare for Solvency II:
<http://www.bankofengland.co.uk/pradocuments/publications/policy/2013/solvency2preparatory.pdf>
- 2.7 Section 3.20 in particular highlights how the PRA considers that firms should be preparing to ensure proper organisation of the actuarial function:

Section 3.20

“The PRA already approves the appointment of the actuarial function holder for life firms under SUP 4 and 10, as a controlled function. During the preparatory period, both life and non-life firms should carefully consider how this function should be organised and best carried out and are encouraged to develop clear lines of reporting and accountability reflecting the nature and complexity of the business and avoiding potential conflicts of interest. Where the activities of the actuarial function includes potentially new activities as a result of EIOPA’s guidelines, for example providing an opinion on underwriting policy and reinsurance arrangements, the PRA expects firms to undertake this work during the preparatory period to ensure their readiness for Solvency II. In applying these guidelines to groups, the PRA encourages firms to plan for the actuarial function being used in a wider capacity through contributing to effective group risk management and governance.”

B. Impact on the roles of actuaries

- 2.8 The IFoA recognises that the actuarial function, risk management and internal audit functions are significant public interest roles and IFoA members with responsibility for those roles, and those seeking to appoint them or approve them, will inevitably wish to place reliance on their IFoA membership. We intend therefore to establish a regime which will provide third parties, such as insurance company board members, other regulators and interested members of the public, with evidence that our members who fulfil these senior professional roles² under the Solvency II regime are equipped to meet the challenges presented.
- 2.9 Having regard to our obligations and desire to protect the public interest, and recognising that reliance will be placed on membership of the IFoA, perhaps particularly by smaller insurers who will need to assess the suitability of candidates for senior professional roles to demonstrate that the requirements of article 42 (see section 2.4 above) have been met, we can see that the IFoA practising certificate regime provides a ready and acknowledged process, which could be extended, with relative ease, to roles exercising Solvency II functions.
- 2.10 We expect that the approach taken could reasonably supplement the existing practising certificate regime used in life assurance where the concept of an individually accountable actuary is a familiar one: actuaries holding Actuarial Function Holder roles (“reserved roles”) must hold the relevant practising certificate and be approved by the PRA before they can take up one of these appointments. Within general insurance (outside of Lloyd’s), however, reserved roles do not exist in the current general insurance regulations.
- 2.11 Equally, we are aware that roles under Solvency II may be held by a person (or persons) who are not IFoA Fellows: they may, for example, be at Associate level, be members of another profession or members at any level of another actuarial association. We want to ensure therefore that any additional regulatory requirements placed on our members, not only address the most important public interest requirements above, but also are proportionate and targeted, avoiding, if possible, a significant market imbalance that could disadvantage IFoA members.

² Controlled and authorised by the PRA

SECTION 3

3. Options

The working party has identified the following Options 1-3 as possible methods to approach the regulation of the actuarial, risk management and internal audit controlled roles falling under the Solvency II regime (although we note that the chosen approach may be different for each of these roles).

A. Range of Options

For the purpose of this consultation, we have broken down the range of options into 3 main categories. We recognise however that a combination of the options may provide the most appropriate solution and respondents are asked to comment on this.

Option 1 – Technical Competency Standard

Members who wish to be controlled role holders would be required to demonstrate that they have met a test of experience and/or technical competence – achievement of which would be demonstrated by the issue of a practising certificate.

The advantage of such a competency standard is that it has been identified as difficult for non-actuaries, particularly in smaller organisations, to assess the technical competence of candidates for controlled roles on actuarial matters. A technical competency standard would serve to demonstrate and provide evidence for such boards as to the technical competence of individuals to take up an appointment.

Respondents are asked to comment on the criteria which should be included and how achievement should be assessed.

Option 2 – Professional suitability

Members who wish to be controlled role holders would be required to meet a character-based standard to demonstrate “professional suitability” - achievement of which would again be demonstrated by issue of a practising certificate. The assessment of this may, for example, include a criminal record check, credit check, disciplinary record check and/or an interview designed to ensure that, aside from technical competence, the person is able to demonstrate the required professional characteristics which may, for example, include integrity and impartiality. Under this option, the IFoA may wish to specify core professional competencies such as self-assurance and influencing skills which would need to be demonstrated as in the existing practising certificate regime.

Again, respondents are asked to comment on the criteria which should be included and how achievement should be assessed.

Option 3 – Generic qualification

Members who wish to be controlled role holders would be required by the IFoA to hold a “qualification” of a generic nature – e.g. Fellowship of the IFoA.

The advantage of this approach is that it could provide a simple mechanism for a controlled role holder to demonstrate their knowledge of financial and actuarial mathematics. The risk, however, is that this could be difficult to tailor to the specific circumstances of the firm for which the role is being undertaken.

Additional comments

- a) We are particularly interested in views as to how a regime administered by the IFoA might add an additional level of comfort to insurance company boards and/or regulators over any checks they may perform themselves.
- (b) We are also seeking views on whether respondents consider that the preferred option should be imposed as a compulsory requirement or whether it should be offered by the IFoA as a voluntary standard that members could use to demonstrate their competency for Solvency II controlled roles.

The advantages of a voluntary approach are:

- Members are able to decide for themselves which is the most appropriate way to demonstrate that they have the required knowledge and skill; and
- The market will establish if this is a useful regime.

Risks of a voluntary approach are:

- IFoA members would need to exercise their judgement as to whether to obtain a practising certificate or not; and
 - A voluntary requirement may not be consistent with the fulfilment by the IFoA of its public interest function.
- (c) We consider that it may be desirable to introduce additional CPD requirements for IFoA members holding Solvency II controlled roles. Respondents are asked to comment as to whether additional CPD would be desirable for any of the options.
 - (d) We recognise that the adoption of an additional regulatory intervention for IFoA members may lead to a higher standard (or at least a different standard) being required of IFoA members as compared to members of other professional bodies. This has both the advantage of providing a ready demonstration of a high level of competence which would be of benefit both to the insurance company boards and to IFoA members and the possible disadvantage of acting as disincentive to appointing an IFoA member due to the additional costs and administration which would attach to this.

The IFoA could therefore refrain from further regulatory intervention, relying instead on the professional obligations currently in place. Members performing Solvency II controlled roles would simply be obliged to follow the Actuaries' Code, relevant APSs, and the Technical Actuarial Standards (TASs) issued by the Financial Reporting Council (FRC). If this approach were to be adopted, the IFoA would consider whether it is necessary to introduce any new APSs or amend those which currently exist and would look to the FRC to do the same with its TASs.

Members are welcome to comment on this approach, including whether it would be in the public interest.

SECTION 4

4. Additional Information

The IFoA will soon be consulting on 2 other initiatives that may overlap with this namely:

- (1) possible amendments to the Life standard APS L1 to take account of changes to the Life PC regime; and
- (2) a new Cross Practice standard (APS X1) on the application of standards in general which will include consideration of how this affects members working within the UK, within the EU and in the rest of the world.

We do not believe that either of these initiatives will impact adversely on the options we have proposed to address the Solvency II requirements.

SECTION 5

5. Questions

We invite your comments on the above options and would particularly welcome your views on the following questions.

An online version of the questionnaire can be found on the IFoA's website at <http://www.actuaries.org.uk/regulation/pages/consultations-and-discussion-papers>

PART ONE

1. About You

Name	
Name of Firm	
Position held	

2. Are you responding in your capacity as a representative of an organisation, as an individual member of the IFoA or other capacity?

As a representative of an organisation	
As an individual	
Other	
If other, please specify	

3. If responding as an individual member, which category of membership do you hold?

Student	Fellow	
Affiliate	Honorary Fellow	
Associate		

4. Please indicate the area in which you mainly work.

Life Insurance	
General Insurance (excluding Lloyd's)	
General Insurance (including Lloyd's)	
Pensions	
Health & Care	
Risk Management	
Finance & Investment	
Risk Management	
Other	
If other, please specify	

5. If you are responding on behalf of an organisation, please indicate the type of organisation.

Insurance company	
Reinsurer	
Consultancy	
Other	
If other, please specify	

6. Where is your organisation based?

UK	
Other Europe	
Outside Europe	
Please specify country	

7. If your answer to Q6 is different from your usual place of work, please specify.

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8. Do you currently hold a practising certificate issued by the IFoA and, if so, which area of practice does it cover?

Scheme Actuary	
Life (including with-profits)	
Life (not including with-profits)	
Lloyd's syndicate	
I do not hold a practising certificate	

9. Do you perform a role which will be covered by the Solvency II Directive?

Yes	No	
Description of role:		

10. Do you want your name to remain confidential?

Yes		No	
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11. Do you want your comments to remain confidential?

Yes		No	
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PART TWO

- 12. With reference to the consultation paper, please indicate which of the options you prefer for each of the Solvency II roles.**

(There may be more than one.)

	Actuarial Function	Risk Management	Internal Audit
Option 1 – Technical Standard			
Option 2 – Professional Suitability Standard			
Option 3 – Generic Qualification			
No specific standard			

- 13. If a practising certificate were to be offered, please indicate whether this should be offered as a compulsory or voluntary option for each of the functions.**

	Actuarial Function	Risk Management	Internal Audit
Compulsory			
Voluntary			

- 14. Please indicate whether you think that additional CPD is desirable for each of the functions.**

	Actuarial Function	Risk Management	Internal Audit
Yes			
No			

- 15. Please provide any comments to support your choices.**

Comments

16. Thinking about the actuarial function, if the IFoA were to introduce a practising certificate, please suggest the criteria which you consider we could use to assess each of the following:-

	Comments
Option 1 - Technical Competency Standard	
Option 2 - Professional Suitability	
Option 3 - Generic Qualification	

17. Thinking about the risk management function, if the IFoA were to introduce a practising certificate, please suggest the criteria which you consider we could use to assess each of the following:-

	Comments
Option 1 - Technical Competency Standard	
Option 2 - Professional Suitability	
Option 3 - Generic Qualification	

18. Thinking about the internal audit function, if the IFoA were to introduce a practising certificate, please suggest the criteria which you consider we could use to assess each of the following:

	Comments
Option 1 - Technical Competency Standard	
Option 2 - Professional Suitability	
Option 3 - Generic Qualification	

19. Do you think it appropriate that the holding of CERA qualification should be a requirement for the holding of a Solvency II risk management function? More detail on the CERA can be found on the ³[CERA page](http://www.actuaries.org.uk/becoming-actuary/pages/cera-chartered-enterprise-risk-actuary-qualification) of the website.

Yes	No	
Comments		

³ <http://www.actuaries.org.uk/becoming-actuary/pages/cera-chartered-enterprise-risk-actuary-qualification>

20. Do you think that any practising IFoA certificate for those carrying out Solvency II roles should be restricted to Fellows of the IFoA or should any of the following categories of professionals also be eligible to apply?

Please tick the one with which you most agree.

Restrict to Fellows of the IFoA	
Offer to members who are not Fellows and who may be not yet be fully qualified	
Offer to Fellows of another actuarial body	
Offer to other members of another actuarial body	
Offer to non-actuaries	
Place no restrictions on the membership category of who can apply	

21. If practising certificates are used to support Solvency II roles, what improvements might be made to the existing regime to facilitate this? Please state the area(s) in which you think the practising certificate regime could be improved.

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22. Do have any other comments which you would like us to take into account in this consultation?

Yes	No	
Comments		

How to Respond to this Consultation

The deadline for responses is **13 June 2014**.

Responses should be sent to: SolvencyII@actuaries.org.uk.

A link to an online version of the questionnaire can be found on the IFoA's ⁴[website](#) or by going directly to: https://www.surveymonkey.com/s/Solvency_II_regime

You can also send a response by post to:

The Institute and Faculty of Actuaries
Solvency II Consultation
Maclaurin House
18 Dublin Street
EDINBURGH
EH1 3PP

Please indicate whether you wish any of the information you supply in your response to be treated confidentially. Unless you so indicate, we may make responses to this paper available on our website at www.actuaries.org.uk

Consultation meetings will be held in London on **28 April** and Edinburgh on **13 May**.

CPD

Members of the Institute and Faculty are entitled to claim up to 1 hour **CPD time** for reading this consultation paper and completing the relevant questionnaire, provided that the topic can be shown to be personally relevant and developmental. Please remember to record your learning outcome within your online CPD record.

Thank you for your time and interest.

⁴ <http://www.actuaries.org.uk/regulation/pages/consultations-and-discussion-papers>