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Questions and Answers

For use by actuaries taking professional responsibility for advice on pension matters based on output from software or other calculation processes

by the Regulation Board

Foreword and purpose of this document

In addition to this Question and Answer document for actuaries, the Institute and Faculty of Actuaries (IFoA) has issued a note, “Actuarial Software and Calculations - Professional Responsibilities” (ASCPR), and a précis of the note for the use of trustees and pension scheme sponsors.

These three documents on professional responsibilities for actuarial software and calculations are collectively referred to as the ASCPR guidance.¹ The ASCPR guidance is produced in response to the growth in the use of third party software and the reliance on support teams for producing actuarial calculations.

The IFoA wants to ensure that the increased market choice does not adversely affect the reliance that clients can place on actuarial services. The profession has particular concerns when the actuary² is working in a reserved role. In that case, it is not always appropriate or possible to limit the scope of the actuary’s professional role through a commercial agreement. The ASCPR guidance aims to explain the role of the actuary and the responsibilities that the actuary has, particularly but not exclusively when working in a reserved role.

The ASCPR guidance is relevant to actuaries when they provide advice or actuarial information which relies on data or calculations provided by:

- trustees or scheme sponsors;
- computer models or software programs;
- a third party to whom the work is outsourced or
- internal support teams.

The ASCPR guidance is intended to assist in all cases where the actuary is taking individual responsibility for their work. (It may also help clarify where no such responsibility is being taken.)

¹ The ASCPR guidance does not constitute legal advice, nor does it necessarily provide an actuary with a defence to allegations of misconduct. While the IFoA has taken care to ensure this is accurate, it will not accept any legal liability in relation to its contents.

² Within the ASCPR guidance, the term “actuary” is used to refer to an actuary who is a member of the IFoA.

Questions and answers for use by actuaries when advising in relation to pension matters

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- 1. Q** The calculation model in a third party software product is accessible by both trustees and employers (and their advisers). How do I ensure confidentiality? Are there potential conflicts of interest?
- A** Actuaries must comply with all relevant professional and technical actuarial standards.
- In this scenario, paragraphs 1.3 (confidentiality) and 3.5 (conflicts of interest) of the Actuaries' Code are particularly relevant. Scheme Actuaries have further obligations under APS P1 (in which section 5 specifically refers to conflicts of interest for Scheme Actuaries). Any concerns around confidentiality or conflicts of interest should be discussed with the client and, if appropriate, arrangements should be put in place for the management of these.
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- 2. Q** I am not comfortable with the arrangements relating to the use of third party software – what should I do?
- A** If, having considered all the facts, the actuary remains uncomfortable with the proposed arrangements for the use of third party software, then they may decline to act. Members should also have regard to Section 4 (Compliance) of the Actuaries' Code and consider 'speaking up' to their clients or employers, reporting unethical or improper behaviour and reporting any matter that appears to be misconduct or a material breach of any relevant legal, regulatory or professional requirement. In the first instance they could consider raising their concerns with their client, a senior actuary within their firm or the IFoA Professional Support Service.
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3. Q Do I need to replicate figures emerging from third party software using my own calculation tools when the third party calculations and models are first being set up? What about for subsequent use?

A This is a matter for professional judgement taking into account the circumstances of the case. It should not automatically be assumed that a model which is fit on one occasion for one purpose remains fit on all such occasions or for all purposes.

As set out above, actuaries must comply with all relevant professional and technical actuarial standards. Those relating to models, data and communication may be particularly relevant to the ASCPR guidance.

4. Q Can I provide my advice on the basis that I am placing reliance on figures from a third party, and therefore if they are not correct I am not responsible?

A This depends on the extent to which it is agreed that the actuary is professionally responsible for the work, or the extent to which the actuary is responsible by virtue of it being reserved work. For example, for reserved work, it will be the professional responsibility of the actuary to ensure that the certified calculations are fit for purpose regardless of the commercial arrangements in place.

5. Q Does it make a difference whether the third party is taking responsibility for the figures to my client or not?

A An actuary in a reserved role must take responsibility for reserved work. This is the case irrespective of the stance of the third party.

For non reserved work, the actuary need not be responsible for figures prepared by a third party, but actuaries are reminded to comply with principles 2.4 and 2.5 of the Actuaries' Code in ensuring that the scope and nature of any appointment is agreed with the client.

6. Q My client has asked me to sign off some figures based on third party software. I don't feel comfortable doing this from a professional perspective, but my employer is insisting that I should to keep the client happy. What should I do?

A Professional responsibility is an individual judgement. Further the Actuaries' Code makes it clear that you will not allow undue influence of others to override your professional judgement. You could debate your concerns with a senior actuary within your firm, a fellow professional (subject to confidentiality matters) or a member of the IFoA Professional Support Service. If you do not consider that sufficient checks have been conducted, you have a professional responsibility to carry out further checks. It is a matter for your judgement to decide on the appropriate level of checks. You should tell your client if you consider that figures are incorrect.

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- 7. Q** My client has asked me to sign off some figures based on third party software. I feel comfortable doing this from a professional perspective, but my employer is insisting that I refuse due to the commercial risks. What should I do?
- A** You should discuss this with the client and your employer in the light of the contractual arrangements between each of you. The client should be made aware of any reduction in contractual protection before you accept the engagement.

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- 8. Q** Are there different considerations for different roles – is there any difference in approach between statutory roles (eg certifying Technical Provisions) and non-statutory roles (eg providing quarterly funding updates)?
- A** There are differences between acting in a reserved role, where the actuary must take professional responsibility for the figures even if prepared by a third party, and in a non reserved role, where the level of the actuary's responsibility may be contractually limited. However, if the actuary is assuming responsibility for figures prepared by a third party then it is up to the actuary's own judgement as to how this can be satisfied.

As mentioned above, it should not automatically be assumed that a model which is fit for purpose on one occasion for one purpose remains fit for purpose on all such occasions or for all purposes.

Note that the actuary should ensure that they comply with relevant technical actuarial standards and other applicable actuarial standards when using third party calculated results.

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- 9. Q** If I am certifying figures in a reserved role, can I remove my professional responsibility for those figures by asking my client to enter into a commercial agreement stating that I am not responsible for the calculation of such figures?
- A** No. In a reserved role the Scheme Actuary is professionally responsible for the figures irrespective of how they may have been calculated. Therefore the actuary must be able to sign off the relevant figures professionally, having applied all relevant technical and ethical standards, regardless of the commercial agreements in place.

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- 10. Q** My client has asked me to work with a particular software platform for the valuation and I am comfortable doing so having agreed the scope of the valuation project and the fee basis. However, I am concerned that I may not be able to provide timely advice in future using this software as not all the figures I use to advise my client between valuations are available to me. Can I insist on obtaining full member data using my own internal models from the outset?
- A** Members are reminded of the need to agree the scope and fee basis of an appointment in accordance with the Actuaries' Code, and of the need to agree in writing with the client in accordance with appropriate actuarial standards the information that you need to be provided with in order for you to carry out your duties. You will need to ensure that you obtain sufficient information in order to carry out the calculations. In this circumstance, the information required may include relevant detail on the models assumptions and data used, and the way in which each of these interact with each other and change over time, as well as full member data in order to carry out the additional calculations not covered by the software.

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- 11. Q** What is my professional responsibility in respect of any output from software or processes where, although I have not been involved in developing the model, I have input data and/or assumptions?
- A** For non-reserved work, you should agree with your client the extent to which you are taking professional responsibility for the output. For reserved work, you would be taking professional responsibility for the output, and you would need to ensure that you have complied with all the relevant actuarial standards, including those regarding data, assumptions and models. As an actuary you must comply with the Actuaries' Code, applicable technical actuarial standards and relevant legislation, irrespective of your role or appointment.

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- 12. Q** My employer uses the same third party software for all actuarial work carried out by the firm. How does this situation differ from using third party software purchased by my client?
- A** In principle, the professional issues are similar in that if you are taking individual professional responsibility for the work carried out using the software, you will need to satisfy yourself that the data, assumptions models and results are fit for purpose. It is likely that you will have more knowledge and experience of a package that is used regularly by your firm, but this should not stop you considering whether you satisfy these requirements every time you provide advice based on that software.

13. Q Does it make any difference, professionally, if I use internal or third party software?

A Professionally there is little difference of principle. However, actuaries are reminded that the Actuaries' Code requires that actuaries agree with the client the scope of any appointment or instruction, and the basis of their remuneration before commencing an appointment or instruction. If the adoption of various software platforms is likely to require a change in scope or fee basis, then members should consider their responsibilities under the code in this respect, particularly if additional or uncertain costs may arise in connection with checking output from third party software. The potential costs of satisfying your professional obligations may vary depending on the software used and the risk management procedures already in existence surrounding the use of that software.

14. Q I am an in-house actuary, advising the employer, who uses figures supplied by the Scheme Actuary/ employer purchased software in framing that advice. To what extent do I assume professional responsibility for the figures I then pass to the employer?

A Whilst you would be expected to take responsibility for any advice you have given based on the figures (and would have to comply with any applicable technical actuarial standards for that advice), the responsibility you take for the figures themselves is a matter for agreement with your client (in this case, the employer). Under the Actuaries' Code, you should ensure that the scope and nature of any appointment or instruction is agreed with the client.