

Amali Seneviratne  
International Actuarial Association  
150 Metcalfe Street, Suite 601  
Ottawa  
Ontario K2P 121  
Canada

31 January 2013

Dear Amali

### **Comments on *Value Proposition* and *The Role of the Actuary***

I am pleased to provide comments from the Financial Reporting Council (the FRC) on the two documents *Value Proposition* and *The Role of the Actuary* prepared by the IAA. We have sent a copy of our comments to the Institute and Faculty of Actuaries (IFoA).

The FRC sets technical actuarial standards (TASs) in the UK and oversees the setting of ethical and conduct standards (and other regulatory activities) by the IFoA. We therefore take a keen interest in the promotion of actuarial services and the roles performed by actuaries. We have developed an Actuarial Quality Framework<sup>1</sup> to support our work, which may be helpful to the IAA in finalising its propositions

These papers are very timely. In the FRC's draft plan and budget for 2013-16<sup>2</sup>, we announced that we, jointly with the Institute and Faculty of Actuaries, would be testing whether the framework of actuarial regulation in the UK remains appropriate given the changes in profession, the markets for actuarial work, and in the regulatory environment.

#### **Value Proposition**

The role of actuaries is fairly well understood by actuaries themselves and the primary users of their services in the UK. Regulation requires life insurers and pension funds to use actuaries to perform certain tasks including advising on technical provisions, premiums and funding rates. There is general acceptance that actuaries have a similar role to play in property and casualty insurance and in health and care insurance. Actuaries are also employed in a range of other activities including work for government, work concerning investments and in risk management.

While we consider that the value proposition may have little direct application for UK users, many members of the IFoA practise overseas and potential users of their services may find such a document useful.

We agree that the key attributes that actuaries bring to their work include integrity, objectivity and impartiality as well as the application of relevant technical skills competently and with care. We also agree that the development and application of realistic models incorporating probabilities and the time value of money to solve complex financial problems are key skills used by actuaries.

We are less sure that actuaries use a unique control process to monitor and refine solutions. The actuarial control cycle is similar to feedback processes which are used widely in many industries to improve performance.

---

<sup>1</sup><http://www.frc.org.uk/Our-Work/Conduct/Professional-oversight/Oversight-of-the-Actuarial-Profession/Actuarial-Quality-Framework.aspx>

<sup>2</sup><http://www.frc.org.uk/News-and-Events/FRC-Press/Press/2013/January/FRC-publishes-its-draft-plan-and-budget.aspx>

We agree that actuaries should aim to provide realistic and often innovative solutions to complex financial problems but we consider that it is more important that these solutions are relevant and reliable. See for example the indicators in our Actuarial Quality Framework for the reliability and usefulness of actuarial methods. We also consider it is important that these solutions are communicated comprehensibly, including clear communication of the inherent uncertainty that is often inherent in the results of actuarial work. We therefore suggest that these concepts of relevance, reliability, and clear and comprehensible communication including communication of uncertainty are included.

### **The Role of the Actuary**

We found this document generally very useful. In particular we found the long list of roles typically filled by actuaries provided in the Appendix helpful.

Actuaries may aspire to filling many roles in risk management and advising on capital levels and stress testing of financial institutions. However, we wonder if this is currently rather ambitious and potentially in conflict with the obligations of care and competence when applied outside the traditional fields of insurance and pensions. Many industrial companies have a significant need for risk management, for example oil and chemical companies, which covers aspects such as safety in which actuaries do not have a natural role. Even in insurance, actuaries in chief risk officer roles are a minority in the UK.

Probably the most significant group of financial institutions are banks. Credit and liquidity risk are very significant risks for these particular financial institutions and, while actuarial modelling skills might be useful, we are uncertain that actuaries have a unique competence in assessing the required capital for banks. We would therefore suggest that an alternative term to encompass insurers, health organisations, pension funds and governmental systems rather than the term financial institution is used.

We consider that one of the key skills of the actuary is the development and application of relevant models to provide advice on solutions to complex financial problems. While this is covered in the paper Value Proposition, we consider this paper should also include more explicit reference to this skill as it explains the development of the roles that actuaries have taken on in the past and aspire to take on in the future.

In terms of the value to users of actuarial services, we have highlighted three main areas in the Actuarial Quality Framework:

- advice on the client's customer transactions;
- advice on client's financial management of its business; and
- advice on the client's reporting.

We agree that the information that actuaries can provide puts the user in a better position to manage the risks that the entity faces effectively. However, it is worth remembering that it is better risk management that increases the security of the entity's stakeholders, to which actuaries are a contributor rather than a complete answer.

Yours sincerely



**John Instance**

Project Director

Codes and Standards Division

DDI: 020 7492 2497

Email: [j.instance@frc.org.uk](mailto:j.instance@frc.org.uk)

Cc: Derek Cribb, Chief Executive Institute and Faculty of Actuaries