

# **Relationships between Actuarial Profession and Government and Regulators**

IAA Presidents' Forum

Mexico City 17 April 2007

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# Proposed Format of this Session

- Aim is to have a lively discussion, not a series of presentations
  - Value derived from sharing experiences
  - Different countries have different experiences of the profession's interactions with government and regulators
  - Members of this forum have experience from different sides of the table!
- Colm Fagan's main role is to facilitate the discussion
- Brief introduction to set out background to the Irish profession's discussions with government and regulators
  - Purpose is NOT to make you experts on Ireland but to use Ireland as a springboard for exploring wider issues that affect all associations
  - There is a wide variety of models for control of statutory actuarial work. We hope to discuss Presidents' practical experience of the advantages and pitfalls of different models
- Please feel free to ask questions, provide answers, at any stage!

# Background to the Actuarial Profession in Ireland

- For various historical reasons, the actuarial profession in Ireland enjoys a high reputation with government, industry and the public
  - Only school leavers with high points in “Leaving Cert” are accepted for actuarial undergraduate programs in university
    - Actuarial degree programs have amongst the highest (in some years the highest) entry requirement of all university courses in Ireland
  - Actuaries occupy senior positions in industry, e.g. CEO’s of leading life insurers, Chairman of Stock Exchange, Chairman and CEO of Health Insurance Authority, Chairman of Insurers’ Federation and Chairman of Irish Association of Pension Funds
- The Society of Actuaries in Ireland (SAI) is the sole professional body for actuaries in Ireland.
  - Society is not an examining body: qualification is through the UK Institute or Faculty, but SAI sets professional standards for statutory and other work.

# Statutory Responsibilities of Actuaries in Ireland

- Under Irish law, a Fellow of the Society of Actuaries in Ireland (FSAI) must:
  - Certify life insurers' reserves, premiums and overall solvency
  - Certify content of life assurance sales illustrations and information provided to consumers on remuneration of intermediaries
  - Certify reserves for non-life insurers and reinsurers
  - Certify solvency and funding levels for defined benefit pension schemes
  - Certify transfer values from defined benefit pension schemes
  - Certify investment strategies for certain tax-exempt individual savings products
- Actuaries discharging statutory roles must have practising certificates issued by the Society of Actuaries in Ireland
  - Approximately one-third of SAI's fellow members have statutory roles
- Little or no independent external oversight of the quality of actuaries' work, including statutory work
  - This includes very little specification of actuarial bases, etc. in legislation
  - Ministerial approval required for some (but not all) professional guidance in relation to pensions
  - Government (Pensions Board) has just (this month) introduced a compliance monitoring scheme for statutory pensions work

# Background to Discussions with Irish Government and Regulators

- Following the Penrose Report and the Morris Review in the UK, the Irish profession decided that the status quo of the profession setting its own standards, without external oversight, was no longer an option
- Government was surprised when the profession asked for external oversight:
  - “ Our experience is of professional bodies trying to avoid oversight.”
  - “We don’t see any problems: there have been no insolvencies”
  - “We trust actuaries!”
- Discussions with government and regulators started in May 2006
  - Department of Finance AND Financial Regulator
  - Department of Social & Family Affairs AND Pensions Board
- Advance paper from SAI: “Options for Actuarial Standard Setting”

# Options Outlined in Profession's Paper to Government (May 06)

1. The Society establishes a separate oversight body
2. The Society establishes a separate standard-setting body
3. Oversight/ setting of standards is delegated to the UK Board of Actuarial Standards (BAS)
4. Government establishes a separate oversight body
5. Government establishes a separate standard-setting body
6. Standards for actuarial work are set directly by the Financial Regulator (for insurance) and by the Pensions Board (for defined benefit pension schemes).

Society recommended Option 4

- Oversight body established by government

Question: Which, if any, of these options applies in your country?

# Observations on “Options” Paper

- Starting assumption in “Options” paper was that the status quo of no independent oversight of standard setting is a non-runner
- Options 1 and 2, of Society establishing an “independent” oversight or standard-setting body, would require 75% support from members
  - Experience with peer review proposal some years ago showed difficulties in obtaining this level of member approval
- “Who meets the cost?” is an important sub-theme in discussions
  - Cost of being an actuary in Ireland is already very high because of members’ fees to UK Institute/ Faculty in addition to fees payable to Society of Actuaries in Ireland
  - Irish profession currently meets the entire cost of standard-setting, issuing of practising certificates, etc.
  - BAS in UK is funded 90% by insurance companies and pension funds; UK actuarial profession only pays 10% of total cost.

## Observations on “Options” Paper (Continued)

- Option 3 of delegating responsibility for standard-setting to UK BAS causes sovereignty and other problems.
  - Irish accounting profession adheres to UK accounting standards but precedent does not transfer easily to actuarial standards, partly due to wider regulatory role for actuaries in Ireland (e.g. actuarial certification of reserves in general insurance, of remuneration of intermediaries, of investment strategies for certain savings products)
- Irish insurance and pension regulators have limited actuarial resources and are a long way from being able to set their own standards (Option 6). There would also be a problem of potential lack of consistency for standards in pensions and insurance
- Only options left standing are 4 (government oversight of standards) and 5 (government standard-setting)
  - Proposed to start with Option 4, with the possibility of moving towards Option 5 in time



# Progress of Discussions to date

- Government was initially reluctant to change the status quo, on the grounds that: “If it ain’t broke, why fix it?”
- As the talks have progressed, increasing recognition by government and regulators that the status quo is not sufficient in the 21<sup>st</sup> century
- Talks not just on oversight of standards, but also on processes for ensuring compliance with standards, sanctions for non-compliance, etc.
- Government has indicated that it would prefer to remain on the sidelines and for the Society to establish an oversight body, but this raises issues of independence, funding and governance (because of Society’s requirement for 75% majority vote)
- Some differences of opinion are emerging between regulators and between government and regulators

# More General Actuarial Issues for Government and Regulators

- How do government and regulators satisfy themselves that actuarial standards are of high quality and are derived objectively?
  - Do regulators set the standards, with actuaries implementing them?
  - Does the government oversee standards set by the actuarial profession?
  - Are standards applicable to individual actuaries or to the institutions being supervised, which in turn employ actuaries?
- How much scope is there for “professional judgement”
  - Are methodologies, bases, etc. prescribed in detail in legislation and regulations?
    - e.g., FSA guidance on future take-up of guaranteed annuity options
- Who sets the standards for actuarial work?
  - Decided by an independent standard-setting body?
  - Decided by the profession, with or without review by an oversight body?
  - Leave to professional judgement of each individual actuary?

# Quality Control for Actuarial Work

- How much trust do government and regulators place in the profession to vet the quality of actuarial work for statutory purposes?
  - Is peer review of actuarial work compulsory?
  - If so, who does it (including auditors?) and what is its quality?
- What is the quality of regulators' vetting of actuarial work?
- How good are the actuarial profession's own disciplinary processes?
  - Do members make formal complaints against other members?
  - How often are actuaries investigated under the disciplinary scheme?
  - Is the regulator prepared to make complaints to the profession about individual actuaries?
    - Extract from CRUSAP Report: "Regulators are generally reluctant to submit complaints to the Actuarial Board for Counselling and Discipline because of the potentially negative impact on pending litigation or on other aspects of the regulatory process, or possibly because it might involve them in litigation."

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