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## Actuarial Function Working Party

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### Abstract of the London Discussion

[Institute and Faculty of Actuaries, Sessional Research Event, London, 18 January 2016]

This abstract relates to the following paper: Williams, R. L., Anzsar, J., Bulmer, R., Buntine, J., Byrne, M., Gedalla, B., Goswamy, P., Grant, J., Heah, W., Keshani, S. & Shah, J. Application of the Solvency II Actuarial Function to general insurance firms. *British Actuarial Journal*. doi: 10.1017/S1357321716000052.

**The Chairman (Mr A. N. Hitchcox, F.I.A.):** Good evening. This is a sessional research event for the Actuarial Function Working Party. The Working Party has been studying the implications of the Actuarial Function under Solvency II, and written a paper, which we are going to discuss this evening.

We have two presenters today. Jahan Anzsar is a qualified actuary with over 10 years' experience in the general insurance market. He is head of UK & EMEA Reinsurance Reserving at XL Catlin, and has worked on London Market reserving as well as Solvency II-related projects. He has been involved in a number of the profession's general insurance (GI) working parties, including the Internal Model Approval Process (IMAP) Working Party, as well as the Actuarial Function Working Party.

Matthew Byrne is a qualified actuary with 13 years' experience in the UK general insurance market, following 5 years previously in life and pensions. He is head of GI actuarial at NFU Mutual and has been involved in a wide range of pricing, reserving and capital work throughout his career. He has also had extensive involvement in his firm's Solvency II preparations since the days of quantitative impact study (QIS) 1 back in 2005.

**Mr M. P. Byrne, F.I.A.:** Here is our agenda for today's session. First, I will be giving a brief introduction to our Working Party and the paper. Then Jahan (Anzsar) and I will talk through three of the key challenges that the paper has highlighted regarding opinions, the structure of the Actuarial Function and, finally, how to ensure independence.

It all begins with Article 48. Article 48 sets out the tasks and requirements of the Actuarial Function, specifically in oversight of technical provision calculations, expressing opinions on underwriting and reinsurance, and contributing to risk management.

Our Working Party was established in April 2013 by Richard Williams. Our aim was to provide practical insights and suggestions around the requirements of Article 48 of the Solvency II directive.

Our aim was not to give people the answer, not least because we do not think that there is one answer, but we hoped that we could help actuaries to understand what the requirements mean and begin to think how best they could be met within their own firms.

It is important to note our standard disclaimer: the views expressed within the report, and indeed in this presentation, are the views of individual members of the Working Party. The views of regulatory and professional bodies should normally take priority.

That brings us to an operational challenge we faced in trying to draft our paper. We had a moving target. Every few months, as our draft paper took shape, a new consultation paper or further update to regulations would be released, some of which provided helpful additional clarity, but all of which meant we had to review everything we had done so far. And of course the regulator still has time to issue more information before 1 January 2016.

Our paper was deliberately quite broad in scope because the challenge, or perhaps opportunity, that the Actuarial Function presents to firms is not just about what Article 48 sets out as the requirements. It is, perhaps, even more importantly about how you deliver it. There will be more on that in a moment, but now I am going to hand over to Jahan (Anzsar), who is going to give his opinion on opinions.

**Mr J. Anzsar, F.I.A.:** I am going to talk about the requirements of the Actuarial Function, to express an opinion and to focus on the opinions covering the underwriting policy as well as the adequacy of reinsurance arrangements.

So, what is to be expected? This is one of the most common questions the Working Party had throughout its lifespan. We think that there is considerable benefit, both for the insurer concerned as well as the regulators, in the Actuarial Function contributing its knowledge and experience to the wider sound running of the insurer.

Underwriting policy and reinsurance adequacy have been singled out as the areas most suited to this and in which, historically, actuaries in some insurers may have had less involvement. But we believe an opinion in this sense is not a formal signing-off of the underwriting policy or reinsurance arrangements in the style of a statement of actuarial opinion, but more a view on the practices and outcomes in these areas from applying the actuarial skillset.

Although the actuarial team within some insurers already provide such a contribution, Solvency II will formalise this role and set a minimum level of contribution, bringing all insurers up to a common standard, but also giving sufficient flexibility to adapt to the specific circumstances of the insurer.

The delegated acts also lay down some considerations required before an opinion can be given.

So here is some further detail on what might be involved in providing an opinion on underwriting policy and reinsurance adequacy, both of which should be supported by reasoned analysis. Providing an opinion on underwriting policy may involve a comparison of actual profitability and premium rate movements by each business segment to your business planning expectations.

It may also involve an assessment of the ability to make profit targets, for example, return on equity, both on the best estimate and a stressed economic condition, such as a high inflationary claims environment or via a loss distribution.

Consideration of external and internal influences on premium rates should also come into play. There should be consideration of the impact of the underwriting policy on the technical provisions and vice versa.

In providing the opinion on the adequacy of reinsurance, the Actuarial Function may wish to consider analysing the historical use and outcomes of the reinsurance programme, carrying out a forecast of growth in net profit distribution, identifying and highlighting any perceived limitation in the reinsurance programme, and assessing the process for deciding on the credit worthiness of reinsurance.

Part of assessing the adequacy of the reinsurance programme is to have regard to the risk appetite of the insurer, both in terms of the level of reinsurance cover in place and the resulting credit risk of the reinsurers used.

For such opinion work to be effective and efficient, the Actuarial Function needs to embed its work in these areas with the processes and timetable of the underwriting and reinsurance teams. Close working relationships and mutual cooperation would be essential. While it is not envisaged that the Actuarial Function acts as a policeman to the underwriting and the reinsurance team, it is important that it positions itself so that it can still provide constructive criticism and informed debate, and not simply rubberstamp the work of the other teams.

Documentation of the Actuarial Function's work in deriving this view will be essential in demonstrating compliance in this area, as it is indeed elsewhere in its obligations under the directive. Of course, the main written output will be the Actuarial Function Report setting this out.

Matthew (Byrne) is now going to talk about the nature and the structure of the Actuarial Function.

**Mr Byrne:** There are many things to consider when deciding how to set up your Actuarial Function. We have identified four key needs: meeting the requirements of the regulations and other guidance; addressing issues of independence and objectivity; deciding on a Chief Actuary for the Prudential Regulation Authority (PRA); and the availability of a suitably qualified and experienced resource.

Our paper explores all of those points in some detail.

Other things to consider include how the rest of the firm is organised, ensuring that you reflect the organisation's complexity, the nature and degree of interaction with other departments, and so on.

One additional thought raised in a recent discussion with another member of our Working Party was: "What is the nature of delivery to the board?" For me, this is the "so what?" of the Actuarial Function. By that I mean it focusses on the potential value that the Actuarial Function will be providing for the organisation.

Your Actuarial Function might be providing a board with assurance that a second-line review has found no major problems with first-line activity. It might be providing evidence that the Solvency II regulations have been complied with or it might be strategically supporting decision making in the organisation. Indeed, it might be trying to do all of these things.

I think that viewing things from this perspective early on, with firms asking themselves what value they would like their Actuarial Functions to add, could influence how they choose to organise themselves, particularly around the interactions with first-line departments and the practicalities of how the report is structured and delivered.

Jahan (Anzsar) will now talk in more detail about the challenge of ensuring independence and objectivity.

**Mr Anzsar:** The PRA have made clear their expectations of the Actuarial Function and, in particular, it being independent of an insurer's revenue-generating function, but also possessing sufficient authority to offer robust challenge to the business.

To achieve this, we need to consider how we separate performing work from reviewing work. It is hardly a new issue for us but it is one receiving new focus when trying to decide where the Actuarial Function sits within an insurer. Often used is the lines of defence model where you have the first line of defence being the risk management by the business operation; the second line of defence being independent risk, control and compliance; and the third line being internal audit.

But how do you implement the first and the second lines in practice?

You could consider two possible set-ups within an insurer. At one extreme you have one team that both performs and reviews the work. Clearly, there is a possibility with this scenario of conflict of interest and self-review.

Then, on the other extreme, there is a completely separate business support function to act as a reviewer. But will it understand a business as well as the doers, and is this a disproportionate response?

Each of these two extremes has its relative strengths and weaknesses.

Can we have the best of both worlds, a “middle way”? In order to achieve this, we need to consider a number of factors to find the right balance, which will be different for each organisation. We should consider, for example, segregation of responsibility to the degree that it is practical. Do we need a separate team that only performs the work and other teams that only review the work?

We should have reporting lines designed to minimise conflicts of interest; but should we use the three lines of defence model? Do we need gatekeeping of inputs, models and outputs where a controller monitors the independence of the doers and reviewers? Do we need a peer-review regime; and, if so, who will do the review? How do we establish clear policies for expert judgement and governance review of material decisions? And what robust documentation can we establish of agreed procedures and explaining assumptions, judgement and results? I think that these are all factors to consider, taking into account the nature, the scale and the complexity of the insurer.

Those are the main points that we wanted to draw out from the Working Party paper. We would be keen to hear about your experiences implementing this and the issues you came across and how you resolved them.

**The Chairman:** Matthew (Byrne) and Jahan (Anzsar) drilled into three specific topics: what an opinion achieves in a new environment, how to structure the Actuarial Function, and searching for independence and objectivity. However, we are not constrained to those topics.

Let me start with my first question. You mentioned earlier that an opinion is not the same as a sign-off. First of all, how well do you think the boards understand the difference? It could be a subtle difference or it could be clearly obvious. Secondly, I would be interested to hear from you, or from the audience, about examples of positive feedback from the board, where it found the opinion expressed very useful and went beyond what it was expecting.

So the first question was: How well do you think boards will understand that difference between an opinion and a sign-off?

**Mr Anzsar:** Are you talking about not having a formal sign-off in the way an actuarial opinion would provide?

**The Chairman:** A board would regard a sign-off of reserves as that being the right number to put in the accounts. Now the board has been persuaded that it owns the reserves and that it will get an opinion here. Then, when you come to the underwriting policy, you have given an opinion. Is that endorsing it? Is it criticising it? Is it recommending change? I should be interested to hear your views.

**Mr Anzsar:** Much of the first line of defence, if you like, will probably be doing the analysis of some of the things that we listed as what you might need to do to provide an underwriting opinion. The opinion providers would then validate that, would assess it for reasonableness and comment on any further areas that potentially might need to be picked up.

We saw it, perhaps, as an endorsement of what has already been done, to some extent, but also highlighting any limitations.

**Mr Byrne:** That is a good question. What it does highlight is the need for firms to be having clear discussions about what these things mean. How well do boards understand that that difference will vary between different boards, different firms and even between different directors, executive and non-executive?

There is value in having an open conversation about what this second-line review is doing, and exactly what it does or does not provide by way of guarantee or review. In that sense it is probably better than if it were just a written opinion that was a tick-box exercise.

**Mr A. J. Newman, F.I.A.:** In regard to the question about how an opinion differs from a “Statement of Actuarial Opinion” sign-off, I think one of the key things is that a sign-off says it is all right. You cannot sign-off the reserves at all unless you think the number is large enough. Whereas an opinion can say: “I do not think that the number is large enough”. Indeed, in the paper you set out in section 7.2.5 two ways that you might go about giving an underwriting opinion. One way is that you have an independent actuarial opinion that says one thing while the underwriters say another thing and it is up to the board to decide how to reconcile the actuary’s and the underwriters’ views. The other way is the “working together” route. I think that first idea crystallises the difference between an opinion and a sign-off. First the actuary expresses an opinion and then the board has to make its mind up. With a sign-off, first the board makes a decision and then the actuary decides whether to sign-off or not.

I have a question on the Actuarial Function Report. In section 5.4.3, you say that the Actuarial Function Report should not be too technical or too long for review by the board. Yet, in section 6, you add the view that it should include a detailed description as to how the technical provisions are calculated.

I support the first view that you expressed that it should not be too technical for the board’s review or too long for their attention span. I do not think that we can square that with a detailed description as to how the technical provisions are calculated.

It is linked to the documentation of the work that you mentioned in section 7.1. I do not think that necessarily needs to be included in the report that goes to the board.

**Mr Anzsar:** Bearing in mind that the intended audience of the report is key, that is something we have debated. You have a number of different audiences here. You have the board, obviously, with their level of experience and understanding. But you also have to demonstrate that you have carried out robust technical analysis of what is needed.

We felt that the report could start with the key points you wanted to draw to the board's attention.

Then to satisfy some of the other needs, you could either include some of the detail in the later sections or refer to other, more detailed, reports. But it is difficult, given that you have a number of different stakeholders that are leaning on the report, and structuring it according to the right level of prior knowledge is challenging.

**Mr Byrne:** I think it is a fair challenge and not one that is unique to the Actuarial Function Report. I think since the Solvency II rules have come along and obliged senior management and boards to understand the limitations, assumptions, approximations, etc. involved within the calculations, it is a challenge that many actuaries, working in capital reserving especially, are already facing and have already had a go at. There might be a range of approaches.

Another working party, called the Good Actuarial Report Working Party, is looking at how we might find some pragmatic ways to address this issue.

**Mr N. G. J. Hilary, F.I.A.:** I have two questions, which I should like to pose to Jahan (Anzsar).

On your point concerning opinion on the reinsurance report, you said that the actuary must opine on the credit worthiness of the reinsurer.

I would question whether actuaries have expertise in opining on credit worthiness. I am wondering if the board would accept the actuary as being the final arbiter, and would seek a second opinion, in any case, whatever the actuary said. Would you care to comment on that?

The second point was one you mentioned right towards the end – whether the actuary in preparing his report would need to seek a second opinion or a peer review. Maybe some of your thoughts predated 1 July 2015. I was wondering whether you might update that in the light of APS X2?

**Mr Anzsar:** On your first point about providing an opinion on the credit worthiness of reinsurers, certainly actuaries do work on that topic. But they are not the only people that the board can lean on to provide a view. I think we can provide some challenge on any other work done, say, by the reinsurance purchasing team. Having a view of the risk appetite of the insurer, does the profile of reinsurers out there placing reinsurance fit with that appetite?

There are other professionals in the firm that could provide useful input on that decision. We can also provide some insight.

On your second point, yes, there is now a peer-review regime in place. APS X2 is now in place. So there is a framework within which we can now operate peer review.

**Mr Hilary:** Would you now agree that, given the importance of the role and advice of the Actuarial Function, independent peer review is almost certainly mandatory under APS X2?

**Mr Anzsar:** Absolutely, given the audience and the decision making that falls off the back of it.

**Mr Byrne:** Our paper just mentions that APS X2 needs to be considered without explaining how to go about it. We leave that for members of the profession.

Just briefly going back to the first point on reinsurance and credit worthiness, at my firm I have served on the reinsurers' security committee, working with our reinsurance colleagues, looking at which reinsurers with whom we wished to place our business.

One of the things that I think we can usefully do is critique the way in which our firms choose reinsurers with whom to place business. Do they simply follow the credit rating? If so, do they look at more than one? Do they use their own expert judgement? If so, how do they arrive at that?

There are probably some simple tests; for example, how often have reinsurers with which they have placed business subsequently been downgraded? That might be some analysis that they are already doing; but, if not, that might be something that we could cover.

**Mr D. B. Martin, F.F.A.:** The last comment about APS X2 refers back to International Standards of Actuarial Practice (ISAP) 1, which is the International Actuarial Association's standard that required consideration of peer review. That is reflected in the European Standards of Actuarial Practice (ESAP) 1. There is another on its way called ESAP 2, which is in connection with writing the reports of Actuarial Function Holders. I did not see a reference to it in the list of references at the end of the paper but I might have missed it.

I just wondered whether that should be taken into account. It is quite close to completion now and will obviously have some kind of impact.

**Mr Anzsar:** The quick answer to that is no. Is it in the public domain as yet?

**Mr Martin:** Yes. There has been consultation on it. It is available on the website and is very close to publication.

**Mr Byrne:** We finished our paper before the end of 2014. There was quite a long peer review. If it came out between last year and now, that might be why we have not had a chance to take it into account.

**Mr Martin:** In fact, there have been two consultations. There has been a working version for the use of actuaries in the meantime.

**Mr T. J. Birse, F.I.A.:** Perhaps I can help with a comment from the life industry. For a number of years now the statutory reserving valuation bases and amounts of reserves for insurance companies and friendly societies have been the responsibility of the board, where previously they were the responsibility of the actuary.

In my experience with more than one board, it has taken a long time to gain their acceptance of this fact. It needs continual reinforcement that this is the board's basis not the actuary's basis. I cannot think of any better way of putting the Actuarial Function Report we are discussing into boards' minds than continual repetition and explanation of what it is about, particularly when boards have had a long experience of the status quo.

**Mr M. H. D. Kemp:** I want to return to your original question, Andrew (Hitchcox). I think it would be useful to have greater clarification on what an opinion is or is not.

Looking at published reports and accounts, what the auditors sign-off on is an “opinion”. They express an opinion as to whether something is “true and fair”. I suspect that if you asked many board members then this is what they would expect an actuarial “opinion” to be like. If this is not the kind of opinion that we are going to offer then we need to be very clear.

**The Chairman:** That is an important distinction.

**Mr J. C. T. Leigh, F.I.A.:** Firstly, on the question of who the Actuarial Function Report and opinions are for, from my perspective the answer is certainly not the board. I do not believe the board is remotely interested in receiving an opinion on the underwriting policy from me. They can get one from the underwriters, all of whom sit on the board.

However, I have to produce an Actuarial Function Report because it is legally required and because Lloyd’s require it. If Lloyd’s do not like what we put in, they can sanction us, and that would be both expensive and embarrassing. And I wish to avoid that. I have to produce the report as a whole, and indeed those opinions, to Lloyd’s satisfaction. I think last year we had a couple of iterations before they were completely satisfied.

On the question of opinions, the statement of actuarial opinion and the auditors’ opinion are binary. The accounts are a true and fair view or they are not. The reserves are sufficient or they are not. I do not see that what we have in the Solvency II Directive requiring us to express an opinion on the overall underwriting policy can possibly be framed in those terms. I think it must mean the ordinary English meaning of what an opinion is. It is not a certification.

On the question of independence, it is all very well in a large organisation to insist on independent review and the independence of the Actuarial Function. In a small organisation it is verging on the impossible. The expense ratios in the London market, especially the Lloyd’s market, are such that contemplating such a thing would be virtually ruinous. We have managed both the Actuarial Function and the validation of our internal model by using a model that is partly external and partly internal.

The external one provides a fair measure of independence, and in the internal part we do try, certainly with the validation of the model, to have important parts carried out by people who have no other involvement with the model. But we disclose entirely in our validation report and the Actuarial Function Report what we perceive the level of independence to be. In a small organisation I think that is all we can aim for.

**The Chairman:** I wonder if we could have any more feedback from the audience as to how they have found this issue of managing the independence of the Actuarial Function Reports, particularly in a small to medium firm.

**A member of the audience:** I am, by history, a life actuary. I have two observations of things I thought might have been missing from the paper. At the expense of coming back to the subject of opinions, I was rather nervous because there was not any reference to legal opinion. I do fear that may come back to haunt us: What exactly is meant by an opinion, and then when we are asked for something else very similar, how we are going to distinguish between the two?

The other one is the lack of cross-reference to life experience or indeed any recognition of how Solvency II is going to cause convergence.

Just to give some idea of where I am coming from, looking at periodic payment orders, say out of motor books, the results look remarkably similar to annuities to me. Yet, under the current Solvency I regime, you get some startlingly different answers and startlingly different reports.

Under Solvency II, I do not believe that that should be possible simply because the way that Solvency II is worded is going to cause those to come very close indeed. Yet I do wonder whether we may end up with Actuarial Function Holders coming from the non-life side having a different set of analyses and reports to someone from the life side, and whether we ought to be nervous of this.

**Mr Byrne:** I think those are both good points. We did not discuss within the Working Party the legal view of what is an opinion. It might have been an oversight. I worked in the life team at NFU Mutual before I moved across to general insurance. When I saw periodic payment orders, the first thing I thought was that this is just like an annuity so I called up my colleague in life and asked him for a spreadsheet to value them.

I think a lot of the Solvency II work, especially where, as with the Actuarial Function, the legislation does not distinguish between life and non-life, will drive harmonisation. What we might see at the beginning, for that and for other reasons, is a variety of approaches being taken.

I expect after a year or two the PRA might be minded to issue a “1 year on” of paper, like it did after International Compliance Association (ICA), which might help harmonise approaches that firms have taken.

Maybe that is something our working party, or another working party, could take forward in a year’s time to see how people are doing this and how similar it is looking and what people will learn from it.

**Mr T. A. G. Marcuson, F.I.A.:** I wanted to make three observations. Firstly, one area that I think you might look at exploring is the aspect of professionalism and how the Actuarial Function interacts with some aspects of the Actuaries’ Code. They are important aspects. They are about integrity and speaking up to our clients and, in complex organisations, the challenges facing actuaries working with a number of different external actuaries who are assisting. That is a complex position to be in.

It is an area where senior actuaries would probably value having some discussion or debate as to what is the best way to fulfil that role and how to manage some of those challenges.

Secondly, I wanted to pick up on one of the comments that you made about working together. The point that I want to make is how do you deal with the “working together” model? I can see the value in that for helping our clients. But what happens in those situations where you find that you have fundamental disagreements? How do you resolve those?

We think that we are working together; we are all part of a team. But when, in hindsight, something goes wrong, you as the Actuarial Function Holder are the one who is standing alone and left carrying the can. There are difficulties and dangers of such an approach. You want to take a collaborative approach. You rely on others. And you may say that we are not going to look at this in so much detail or yes, there is a bit under and over in this place or that place. But when the problem emerges,

you may well say that you did not look at this, this and this, or these are the limitations. But those limitations may not be able to provide you with a sufficiently strong defence.

Thinking about those, and how you make the “working together” model work, harking back to the point about being able to speak up to your clients, leads me to the third point and question.

There is the section about the different stakeholders with whom the Actuarial Function Holder has to interact; but it seems to me that, as actuaries, we are in the slightly difficult position of having a duty to both policyholders and shareholders.

Our clients, fundamentally, are shareholders, who want to employ us, whether as employees or as external suppliers. However, if you look at the tone of our role in Solvency II, our obligations seem to be slanted towards policyholders.

It is important that we get this right. When it works, and works well, it is valuable to our clients.

**Mr Byrne:** That was a good articulation of some of the hardest parts of doing this in practice. That is one of the things that will come out as people get going for real next year.

As you say, if the Actuarial Function is going to add value, we need to speak up if we think that there is something that is not right or could be better. We need to speak up about that in sufficiently strong a way that it is not just rebutted immediately by “Oh, yes, that was on my list of things to do, but it is not that important, otherwise I would have done it”.

Highlighting, as you have done, professionalism and the Actuaries’ Code, is helpful.

On stakeholders, policyholders and shareholders, I will pass to Jahan (Anzsar).

**Mr Anzsar:** On the first one, you asked: “When things go wrong where does the buck stop?”, given you have performed an independent review, and so on.

There has to be an element of collective accountability to some extent – difficult as it may be. That was the first thing that came to mind as you were setting out difficult scenarios that may arise in practice. Also, reiterating Matthew’s (Byrne) point about having that voice, I think diplomacy and negotiation skills are key for whoever takes up the Actuarial Function Holder role.

Having different stakeholders is a challenge. We all have to bear policyholders, and so on, in mind as key stakeholders. It is about wearing different hats at the same time, bearing in mind those different stakeholders and how they might view what you are doing and the course of action that you are taking.

I do not think that there is a silver bullet to deal with each situation. Does anyone else have any further thoughts on this topic?

**Mr M. G. White, F.I.A.:** Even if you do so in a relatively light-hearted way, you have to make sure that the people you work with appreciate that part of your role is to put policyholders first.

If you take the opportunity to remind them of that now and again, they are more likely to respect it as and when you choose to put your foot down.

**Mr Newman:** Section 10.3.2 talks about the relationship with the Chief Financial Officer (CFO), and suggests that one of the reasons that you need to get on well with the CFO is that often he or she would be the person presenting your report to the board. That is certainly my experience.

But I should point out that under the proposed Actuarial Professional Standard that implements a Practising Certificate under the new Senior Insurance Manager regime, actuaries accepting the position of Chief Actuary under the new regime should ensure that they have the possibility of presenting in person to the board, should they deem it sufficiently serious.

**The Chairman:** I would like to ask the audience to give us some feedback. I am particularly interested to hear from people who have experiences of an opinion that has been positively received by the board. It is quite easy, I suspect, when you say you are going to give an opinion on underwriting policy or reinsurance arrangements, to imagine that some will think you will just come out with criticisms and negatives.

I will be interested to hear from the audience in a few minutes if they have some examples where the opinion has been welcomed and used by the firm, perhaps, or the recommendations made to the board have been followed through.

While you are thinking about such examples, I am going to ask Matthew (Byrne) and Jahan (Anzsar) a quick question.

How do you maintain independence over time? If you have given a recommendation this year for an improvement or a change to the underwriting policy, then when you come to review that underwriting policy next year you are reviewing your own work in a way. You are reviewing what you suggested a year ago.

How do you maintain independence over time if your recommendations are followed?

**Mr Anzsar:** That is a good point and a difficult one to answer.

That is where, perhaps, the APS X2 review is going to help. If it starts to look like you said: “Do X, Y and Z”, and they did X, Y and Z, and you are now saying: “That is fine”, it is hoped the peer review you are having done internally, or externally, would spot that and ask you to reconsider.

**Mr Byrne:** In my experience the landscape often changes. There are often new factors to bear in mind, particularly if the underlying business has evolved in some way or the book has changed.

I imagine that there are always new things with which to grapple and we should try to ensure that we are doing the best that we can.

**The Chairman:** Going back to my previous question, have you, in your experience, come across good examples of opinions that have helped the board?

Let me ask first how many in the audience have written their first Actuarial Function Report and had it reviewed by the board? From those four or five hands, is anybody willing to share with us some of the recommendations that they have made, or parts of the opinion where interest from the boards was pleasantly surprising?

Andrew (Newman), do you want to have a go?

**Mr Newman:** I am afraid that I cannot answer that part of the question. What I can say is that once you start talking about the movements that convert generally accepted accounting principles (GAAP) technical provisions to a Solvency II basis, they start looking at their watches. Even if you adopt the approach recommended in the paper of producing two waterfall charts of movements and explaining the movement between the waterfall charts of movements, which I did this year, they did not start looking at their watches as quickly, but they still could not quite see the point.

**Mr White:** Two comments. The first one is if their eyes glaze over, does that mean they are fit for the job as a team? The second one is, Andrew (Hitchcox), you asked us for good reports. You should, to be fair, ask for the opposite, too.

**The Chairman:** Well, I did not want it to sound as though our sole aim in life is to find fault with other people's policies and reinsurance arrangements.

It is interesting, though. When I asked how many people in the audience had sent their first Actuarial Function Report, there was a very small show of hands. Is that because you have sent draft reports to your boards and you thought I just meant the final one?

We have done a dry-run actuarial report for our board for the reason that if they do not like it, we want to find out before 1 January 2016. I am not quite sure what question is emerging in my mind here. I am just curious. When are people going to do their first dry-run Actuarial Function Report for their boards?

Those who have already done so, please do not indicate. For those of you who have not done one, are you going to do your dry-run Actuarial Function Report this year or next year?

For this year, put your hand up. (One person raised their hand.)

I have to give you some friendly advice here: you need to get a dry run out very fast.

Explaining the Solvency II technical provisions to a non-life board is quite a challenge. You do need to get a practice in as early as possible. It is probably too late for the 2015 board meetings.

**Mr A. J. Jeffery, F.I.A.:** I have just one comment. I think you have understated in the paper about the interaction with the risk function, particularly for a company that is running an internal model. I think you are suggesting that the Society of Actuaries in Ireland was pushing this quite strongly. I would agree with them. The capital is now equal to a movement in own funds which definitely means the movement in your technical reserves. I think you need to treat the risk function as a more important stakeholder than you seem to have done.

**A member of the audience:** I have a minor, pedantic point. I did wonder whether it might be useful to include some reference to the way in which actuarial functions are implemented in the Financial Services and Markets Act 2000 (FSMA) – that is, primary UK legislation.

Certainly, as a life actuary, I have found it occasionally useful to point out the powers that are given to the Actuarial Function in terms of demanding information, as set out in FSMA, that go well beyond what is built into the regulator's rules.

I have not gone through the fine print of everything that has emerged in the last few weeks, but I suspect the same will apply through to 1 January 2016. It might be worth having a think about that aspect.

**The Chairman:** In terms of having ready access?

**The member of the audience:** I suggest that it is worth going back through the wording of FSMA in terms of Actuarial Function in primary legislation, because it looked to me that it may well carry over into Solvency II and could be quite useful.

**Mr White:** A response to that point. I was looking up the Actuarial Function for general insurance in the existing legislation. It was silent on it, apart from for life actuaries.

I do not think the legislation, as it currently exists, goes into the general insurance field.

**Mr T. W. Hewitson, F.F.A.:** May I respond quickly to that point? FSMA, under the various provisions, will apply to any external actuary, either life or general, who is brought in. For internal actuaries it will be the EU Solvency II regulation, in particular. That does require the provision of relevant information to all those in the firm who need it for its different functions.

**The Chairman:** Thank you for that clarification.

**Mr Marcuson:** I wanted to just pick up on the comments that boards do not like, or do not appreciate, detailed actuarial reports.

I have a couple of points. One is that some of the work that was done by the GI Reserving Oversight Committee suggests that there is a spectrum of views. Some boards appreciate more detail than actuaries tend to give them credit for. I think it depends upon the board and with whom you are dealing.

The other point stems from work when you are looking at reserving as an external person. If the actuarial report is slimmed down and does not have all the information, and there is no other report, that can be a real challenge.

Your ability to get under the skin of the work that has been done and to form a view as to whether you agree or disagree with it is made enormously difficult. You will need to say: "This piece of work that you thought was sufficient for all purposes is a slimmed-down report. If the work has not been documented elsewhere, you will need to go back to square one and do it again". That is a difficult message to give another actuary, as an external actuary, at a later stage.

If we are going to say, as an Actuarial Function, that it is fine to do a report that is very focussed on what the board wants, we need to make sure that there is not just a pile of spreadsheets that have the numbers in, but a properly documented record of what has been done.

**Mr Newman:** Regarding that last point, the paper, in section 7.1, talked about how things do need to be documented. It did not specify how things had to be documented there.

We do have rules about how things should be documented under the Technical Actuarial Standards (TASs), promulgated by the Financial Reporting Council (FRC). Though, in section 5.4.1, I think it is incorrect to say that if you are a member of the Institute and Faculty of Actuaries (IFoA) you have to follow

the TASs. If the organisation you are dealing with is in the UK and under the authority of the FRC, then whoever is doing the work will have to follow the Actuarial Standards because the FRC requires it of the company. But I do not think that being a member of the IFoA automatically requires you to follow them.

**Mr M. R. Kipling, F.I.A.:** I am a life actuary, too. First, I was going to challenge slightly my former colleague on the Professional Affairs Board about that last statement. It is my understanding that the Actuaries' Code requires actuaries to apply TASs to the work that they do, particularly if it is classed as "reserved" work, which, I speculate, the Chief Actuary role's work will be for both general and life insurance, as the Actuarial Function Holder role for life insurance currently is.

I should also like to say that, while the life side has much experience of the role of a statutory actuary, it is also somewhat less clear to us how the new Chief Actuary role is going to operate. At my own firm, I sit next to the man who is going to be the Chief Actuary from next year. He is still finding his way as to what his relationship is going to be with the other actuaries in the business.

In fact, the way that we have organised it is that his working title is Chief Risk Actuary, and he sits in the risk function, reporting to the Chief Risk Officer, whereas we also have a Chief Financial Actuary who sits in the finance function, reporting to the CFO.

At present, they are having lengthy discussions with each other as to who is responsible for what.

**Mr Newman:** About the TASs, the Chief Actuary is not technically a reserved role because you do not have to be an actuary to do it. The TASs are up for review anyway.

**The Chairman:** Do the authors want to organise a short summary about what we have heard this evening? Are there any particular points arising and, perhaps, next developments you might be thinking about?

**Mr Byrne:** I think the fact that several of you have managed to stump us with some good points shows that this is not a done deal.

I think that this is a new, exciting area with which actuaries can become involved. I think things will inevitably evolve and regulators and professional bodies will chip in as things commence. There is certainly more work for another working party to carry on. The number of you attending today shows how much interest there is in this work.

**Mr Anzsar:** It has been useful to hear about the further piece of legislation that may well apply. We will take that back to the Working Party, as well as your detailed feedback on certain parts of the report.

If we could reconvene at some point, probably next year, to hear how this works in practice, it would be interesting. We could also throw in some feedback from the regulators once they have seen how this operates in practice and what could be done differently.

**The Chairman:** The Actuarial Function role will impact almost all of us working in insurance.

I invite you to put your hands together and thank Matthew and Jahan for the hard work that they have done.