

RESPONSE BY THE ACTUARIAL SOCIETY OF SOUTH AFRICA TO QUESTIONS ASKED BY THE MORRIS REVIEW OF THE ACTUARIAL PROFESSION

Introduction

The Actuarial Society of South Africa (“ASSA”) is the professional organisation for actuaries and actuarial students in South Africa. It does, however, have members in a number of other countries, mainly in Africa, Europe and Australia.

ASSA is not an examining body at present. In practice this means that members obtain their actuarial qualifications by completing the syllabus set by the UK Institute and Faculty of Actuaries. For the final professional examination (“Fellowship examination”), an option to write a paper based on South African conditions, legislation and practice has recently been introduced.

As a founding member of the International Actuarial Association (“IAA”) in its current form, ASSA is subject to the professional and other requirements laid down by this organisation from time to time. The ASSA President serves on the IAA Council *ex officio*, and a number of other ASSA members hold other positions in the IAA.

Questions asked by the Morris Review

Mr Stephen Dickinson asked the questions below by e-mail, addressed to a number of members of the IAA. For ease of reference, the questions are repeated below, as they were phrased in Mr Dickinson’s e-mail. Responses are kept brief, to avoid Mr Dickinson having to wade through unnecessary detail. ASSA will gladly provide further information, if required.

1. Actuarial societies/associations

- How are they structured/organised and how are they funded

The management of ASSA’s activities vests in a Council comprising 12 Fellow members (i.e. fully qualified actuaries) and one student observer member. Council performs an overall management function, with detailed work delegated to committees. These Committees are active in the practice areas (e.g. Life Assurance, Healthcare, Retirement Matters, Continuous Statistical Investigations Committees, etc) or deal with professionalism (e.g. Professional Conduct, Professional Development and Continuing Professional Development Committees) or administrative issues (e.g. Admissions Committee and Programme Committee).

ASSA’s main source of funding is members’ subscription fees. In addition, a small amount of income is generated through investment of the

organisation's reserve funds. There is no funding by means of government or other grants.

- How are they governed

ASSA is a self-governing body. It is not governed by statute or appointment. In turn, it has no statutory powers, although it plays a part in the approval by the Financial Services Board of actuaries for statutory work (see also the response to "Are Actuaries Regulated?").

- How are professional standards set and maintained

Professional standards are developed by the Professional Development Committee, an ad hoc committee appointed for that purpose or the relevant practice committee. The committee submits a draft standard, referred to as a professional guidance note ("PGN"), to the ASSA Council. Council either approves the release for comment of the draft, or suggests further changes. Once a draft has been released, ASSA members are invited to comment thereon. A revised draft, incorporating comments from members or accompanied by an indication why such comments could not be entertained, is submitted to Council for final approval. The establishment of an actuarial standards board with external representation is currently under consideration by ASSA. For ASSA the major external stakeholders that would be considered for representation would include the trade unions, as well as other professions such as accounting, auditing and legal.

The maintenance of standards is policed via the disciplinary process, which is complaints-driven. The Professional Conduct Committee is a standing committee tasked with investigation of complaints. The Professional Development Committee proactively seeks ways to raise professionalism standards amongst members. Newly qualified actuaries are required to attend a two day Professionalism Course. The requirement for experienced actuaries to attend such courses periodically is also being considered.

- How do they regulate, educate and develop the skills of their members

The Programme and Continuing Professional Development Committees ensure that there are sufficient ASSA-run opportunities for the honing of members' skills. This is done by means of seminars, (e.g. the annual Short Term Insurance or Healthcare Seminar), sessional meetings on topical issues and presentations and discussions at an annual convention.

In terms of ASSA's Continuing Professional Development ("CPD") scheme, members have to complete at least 15 hours formal and 52 hours informal CPD per year.

Members who apply for practicing certificates for statutory work have to hold valid CPD certificates, issued by the ASSA office. These certificates are renewable every second year.

- What are their membership criteria

For Fellow membership, ASSA requires a formal qualification, obtained from a recognised professional actuarial organisation, namely the Institute and Faculty of Actuaries in the United Kingdom. Only Fellow members may obtain practicing certificates for statutory work.

For Student membership, the applicant has to follow a course in actuarial science at an institution or organisation recognised by ASSA, or otherwise meet the requirements for registration as a student member of the Institute and Faculty of Actuaries in the United Kingdom.

- The nature of any public interest obligation

The main public interest obligation we see resting with our members is that of enhancing the long term financial security of individuals and institutions. The way in which ASSA ensures that this is achieved, is largely dealt with by professional guidance notes on reports submitted by valuers of life offices or retirement funds. PGN 106, for example, states that it is incumbent upon all statutory actuaries to ensure, so far as is within their authority, that the long term business of the company is operated on sound financial lines and with regard to its policyholders' reasonable expectations. It places a responsibility on a valuator to inform the Registrar of Insurance of certain problems (e.g. where the valuator has drawn the attention of a board to what he considers to be a material risk that the insurer will be unable to meet its obligations, and the company fails to remedy the situation).

- How do complaints/disciplinary procedures work

The Professional Conduct Committee investigates all complaints and either recommends that no disciplinary action be taken or that the matter be referred to the Tribunal. Provision is also made for an appeal, which is heard by an ad hoc appeal board, chaired by a retired judge. Legal representation is allowed at any stage of the proceedings. The principles of natural and administrative justice are adhered to.

Council may, in the absence of a formal complaint, decide to refer a matter to the Professional Conduct Committee for investigation, should it deem this to be in the professional or public interest.

At present, all structures in the disciplinary process comprise Fellow members of ASSA. Changes to this process currently under review by the profession provide for non-actuaries to serve on these structures, but with a majority of ASSA members, at least for the time being.

2. The regulatory framework within which actuaries function

- Are actuaries regulated

The actuarial profession is self-regulated in South Africa. For statutory work, an actuary has to submit to the Financial Services Board a practicing certificate, issued by ASSA. This certifies that the actuary has sufficient experience and expertise in the relevant field, and has completed the required numbers of CPD hours. These certificates are renewable every four years. The Financial Service Board conducts its own investigation into the non-professional parts of the applicant's life (the "fit and proper" questionnaire). Final approval for statutory work is granted by the Financial Services Board.

- Are there any roles reserved exclusively for actuaries

Yes. The Long Term Insurance Act and the Pension Funds Act, as amended, reserves the statutory valuation of life offices and retirement funds for actuaries. Specific provision for actuarial certification is also made in the legislation governing retirement fund surplus issues, for example actuaries are required to certify whether the process of retirement fund surplus apportionment complies with the Pension Funds Act, and whether any exercise of discretion by a trustee board was not unreasonable. Courts often require actuarial calculations with regard to compensation claims.

- To whom are actuaries accountable

Actuaries are accountable to their clients (in most instances, their employer) and, for statutory work, to the regulatory authority, viz. the Financial Services Board. ASSA members can also be brought to account by their colleagues and members of the public, by means of the disciplinary process.

- Are they subject to peer review/scrutiny/audit

Internal peer review takes place in most companies. External peer review is being looked into again. Due to the relatively small number of actuaries in South Africa, external peer review, when considered three years ago, was deemed to be fraught with practical difficulties.

Reports submitted to the Financial Services Board (i.e. life office and retirement fund valuations) are submitted to scrutiny by the Board.

Regulation of life assurance, short-term insurance, security exchanges, collective investments, retirement funds and banks falls under the Ministry

of Finance. Bank regulation is administered by the Registrar of Banks, which is located at the Reserve Bank, and the rest are regulated by the Financial Services Board.

Administration of the Companies Act and the microloan industry falls under the Ministry of Trade and Industry. The Registrar of Companies is responsible for regulating the Companies Act and the Micro Finance Regulatory Council is responsible for regulating microloans, including the administration of the Usury Act.

Medical aids, which fall under the Ministry of Health, are regulated by the Medical Council and the Council for Medical Schemes.

- Are there legal and/or professional duties/safeguards for disclosures (i.e. whistleblowing)

Disclosure is dealt with in a number of South African legislative measures, where the provisions are aimed at the public generally and not at actuaries specifically.

Professional Guidance Notes issued by ASSA state explicitly that actuaries should take care that their advice is properly understood, the implications or reports fully grasped and the transmission of such advice or reports to third parties does not create misleading impressions. Best practice guidance for statutory valuers of life offices requires that the statutory actuary must inform the regulator if appropriate steps are not taken by the life office when informed by the actuary that the office's ability to maintain a sound financial condition has been compromised.

3. The market for actuarial services

- How many actuaries (qualified + trainees) are employed in the country

Qualified actuaries: 560.

Students: 1 180.

- In which areas of business are actuaries employed and how many in each

The main areas of activity and approximate spread of actuaries are life assurance (38%), employee benefits (35%), healthcare (9%), short term insurance (8%) and investments (6%). The others are academics, managers etc.

- Are they employed by consultancies versus full-time employees of eg insurance companies

There is a spread of employment between life office and consultancies. A small number of actuaries are independent consultants, i.e. run their own consulting firms.

- How many companies employ actuaries, whether as consultants or in-house

All insurance companies in South Africa employ in-house actuaries, and some make use of consultants as well.

- Who recruits trainee actuaries and what role do universities play

Recruitment is mainly done by the companies looking to employ trainee actuaries (referred to as “students” in South Africa). Advertising of positions to ASSA members is mainly done via the ASSA office. Specialist recruitment offices are currently only used for “head-hunting” purposes, where they prospective employer has a very specific type of applicant in mind.

Universities play a role in recruitment only by placing the advertisements received via ASSA on the Actuarial Science notice-boards. (The lecturers, being ASSA members, receive the advertisements.)

Most students study for an actuarial career through actuarial-specific degree and then seek employment before continuing with part-time study toward actuarial examinations.