

CIA RESPONSE TO MORRIS COMMISSION CONSULTATION DOCUMENT

September 2, 2004

Introduction

The Canadian Institute of Actuaries (“CIA”) is pleased to respond to some of the questions in the Consultation Document published by the Morris Commission on 28 June 2004. We would be very pleased to clarify or expand upon any of our responses.

Since our primary expertise relates to Canadian conditions and practices, we have answered many of the questions as though they had been asked in a Canadian context. Our responses therefore reflect current Canadian practices, law and regulation, and should be considered in that context. We hope that this will be useful information for the Morris Commission. The questions that we have not responded to are those that we cannot contribute to because to do so requires a detailed knowledge of the UK environment.

Canadian actuaries work in a number of different fields, but most of their work relates to insurance and pensions. In the following responses, unless otherwise indicated, we consider only the following actuarial roles, all of which are reserved by statute.

Insurance companies

Most insurance companies in Canada are regulated by the Office of the Superintendent of Financial Institutions (“OSFI”). The Insurance Companies Act, which governs all insurance companies regulated by OSFI, both life insurance and property & casualty (“P&C”, or “general insurance” in the UK), requires that the board of directors appoint an actuary. The actuary is required to (in particular):

- (a) “value the actuarial and other policy liabilities of the company as at the end of a financial year”. (Section 365(1)(a))
- (b) “meet with the directors of the company (or the audit committee) at least once during each financial year in order to report ...on the financial position of the company and ... the expected future financial condition of the company.” (Section 368)
- (c) report a matter to the regulator, if the actuary believes the matter will have a “... material adverse effect on the financial condition of the company ...”, and “ ... suitable action is not being taken to rectify the matter ...”. (Section 369)

With the exception of automobile (motor) insurance premiums, there is no legal requirement for premium rates to be calculated by an actuary, although in practice this role is usually carried out by an actuary.

Participating (with-profits) policies now form a fairly small part of the life insurance market, especially since the demutualization of all the large mutual life insurance companies in 1999-2000. The declaration of life insurance policyholder dividends (bonuses) is the responsibility of the board; the actuary must report on whether the planned distribution is in accordance with the company’s (policyholder) dividend policy

(Section 464(2)). Companies must maintain separate participating and non-participating accounts. The actuary must provide a written opinion that the allocation of investment income and expenses to the participating accounts is “fair and equitable to the participating policyholders”. (Sections 457(a) and 458(a))

Pension funds

Pension plans in Canada are subject to the pension standards legislation of the 10 Canadian provinces (with the exception of certain industries such as communications, transportation and banking which are subject to federal legislation). They are also subject to the requirements of the Income Tax Act.

The following requirements are extracted from the Ontario Pension Benefits Act and Regulation, but they are typical of those of other provinces.

1. ... the reports and certificates referred to in...sections 13 and 14 of this Regulation and section 70 of the Act shall be made by an actuary.
2. ...the administrator shall submit a report on the basis of a going concern valuation that sets out...the normal cost,...any...going concern unfunded actuarial liability,...(and) the special payments required to liquidate any going concern unfunded liability...the report shall also set out, on the basis of a solvency valuation, or the opinion of the person preparing certifying the report...whether there is a solvency deficiency. (Section 13)
3. ...with valuation dates at intervals of not more than three years. (Section 14)
4. ... an actuary preparing a report...shall use assumptions appropriate for the plan and methods consistent with sound principles established by precedent or by common usage within the actuarial profession and with the requirements of the Act and this Regulation
5. ...“actuary” means a Fellow of the Canadian Institute of Actuaries (Section 1 (2))

The following is extracted from the Income Tax Act:

1. ...a contribution made by an employer to a registered pension plan...is an eligible contribution...if it...is made pursuant to a recommendation by an actuary...based on an actuarial valuation...prepared in accordance with generally accepted actuarial principles...and the recommendation is approved by the Minister in writing...(Section 147.2(2))
2. ...“actuary” means a Fellow of the Canadian Institute of Actuaries (Section 147.1(1))

General

1. Appendix A to this set of responses lists a number of documents that are referred to. Appendix B lists some abbreviations and acronyms used in our responses.
2. In a separate submission, we have provided some information (requested by the Morris Commission) about the actuarial profession in Canada, such as the number of actuaries and the areas in which they work.
3. We would like to draw your attention to our response to question 1.32, where we point out some distinguishing features of the Canadian actuarial profession and the regulatory environment.
4. It is natural to speculate whether a large Canadian life insurance company could get into financial difficulty, and we have considered this further while preparing our responses. We think that the Canadian regulatory and governance structures help to reduce the risk of this happening. From a regulatory and actuarial perspective, some of the main reasons for saying this include:
 - (a) The Insurance Companies Act, in particular:
 - the powers that it gives to the regulator,
 - the defined roles and responsibilities of the actuary,
 - the separation of roles of the CEO, the CFO and the actuary,
 - the requirement for the actuary to report a matter to the regulator under certain conditions (“whistle blowing”),
 - if an actuary resigns or his appointment is revoked, he is required to write to the directors and the regulators, giving the reasons for his resignation or why he thinks his appointment was revoked.
 - (b) The CIA’s education system, rules of professional conduct, standards of practice, and discipline process
 - (c) The existence of mandatory external peer review for actuaries of an insurance company
 - (d) Regular communication and a good respect between the CIA, the Canadian Institute of Chartered Accountants, OSFI and the Canadian Life & Health Insurance Association. This allows potential problems to be identified early, and for solutions to be developed jointly where appropriate.

The above list is limited, and considers only actuarial and some of the main regulatory reasons. It does not include other factors such as accounting standards and controls, and corporate governance requirements for Boards and Audit Committees (some required by OSFI).

Chapter 1 – The role of actuaries, the Profession and the actuarial services market

The scope of the actuarial role

Q 1.1 (a) What do you see as the main value provided by actuaries and, conversely, what are their weaknesses? (b) In general, are actuaries properly equipped for the roles that they perform?

A 1.1 (a) Actuaries are business professionals who analyze the financial consequences of risk. Actuaries use mathematics, probability, statistics and financial theory to study uncertain future events, especially those of concern to insurance and pension programs. They evaluate the likelihood of those events, and design creative ways to decrease the impact of adverse events that actually do occur.

We believe that the main value provided by actuaries is their ability to serve insurance companies (and their policyholders, shareholders and management) and pension plans in filling the roles described in the introduction. The Society of Actuaries recently conducted a survey of employers of actuaries. The employers rated actuaries highest for their:

- ethics
- quantitative (modeling) skills
- ability to solve complex problems
- financial assessment and reporting skills

Actuaries scored the lowest ratings in the following categories:

- Bold, takes informed risks
- Business communication skills
- Proactive
- Can focus on big picture
- Business acumen

(b) We respond to this in our responses to other questions.

Q 1.2 Are there areas of business that you think actuaries should become more involved in or conversely are there areas of work you think actuaries should leave to other professionals?

A 1.2 In Canada, actuaries play a very small role in advising the federal and provincial governments on public health insurance programs, for example the expected future cost of different programs. We think that actuaries should play a larger role.

Many actuaries working for insurance companies play a major role in risk management. A good example is the annual report that an appointed actuary must make to the board of directors on the “expected future financial condition of the company”. (This is generally

referred to as the Dynamic Capital Adequacy Testing (“DCAT”) report) An insurance company is, of course, in the risk taking business, and the actuary’s training puts him in an excellent position to be the risk officer of an insurance company. Actuaries’ training and experience (e.g. their use of stochastic techniques to determine capital requirements) and the fact that they operate within standards of practice and a code of conduct, could result in them becoming increasingly useful as risk officers of other types of companies, in particular other types of financial institutions (some of whose complex products resemble products sold by insurance companies).

We do not believe there are any roles (that are currently filled by significant numbers of actuaries or are reserved by statute) that “actuaries should leave to other professionals” (see A 1.3 below). We have no evidence, anecdotal or otherwise, that suggest that other professions see this differently.

Q 1.3 Do you think there is still a need for particular roles to be reserved by statute, and if so, which roles and for what reasons? If not, why not?

A 1.3 We believe that the roles currently reserved by statute for actuaries in Canada should remain reserved. The work involved is complex and requires unique skills and experience, and no other group of professionals has the specialized training that is required. Further, the work performed by actuaries is subject to rules of professional conduct, standards of practice (which are continuously reviewed and updated), and a discipline procedure.

Q 1.4 What impact, if any, has the existence of reserved roles had on the effectiveness with which actuaries work with non-actuaries?

A 1.4 In general we believe that the existence of reserved roles has led to greater effectiveness, since it has resulted in greater clarity of the respective roles of the different players. For example, the Joint Policy Statement, approved by the CIA and the Canadian Institute of Chartered Accountants (“CICA”), describes

“(a) under what circumstances the actuary and auditor would use the work of the other in carrying out their respective responsibilities with respect to financial statements;

(b) how actuaries and auditors should interact in carrying out their respective responsibilities; and

(c) how their responsibilities may be disclosed to readers of financial statements.”

The Joint Policy Statement would apply, for example, to the financial statements of an insurance company, or to the financial statements of a pension or welfare plan, and of the sponsor of such a plan. Section 1630 of the CIA's Standards of Practice contains the complete text of the Joint Policy Statement.

Another example is the use by lawyers of actuaries when an expert opinion is required; for example, placing a value on pension entitlements in the case of a marriage breakdown settlement.

Q 1.5 If roles reserved exclusively to actuaries are maintained, do you think that there is a need to introduce greater peer review and scrutiny of such work?

A 1.5 Peer review may be internal (by another actuary working for the same company) or external (by another actuary who does not work for the same company).

In Canada, the work of the appointed actuary of an insurance company is subject to external review. It is also reviewed by OSFI. This is described in more detail in OSFI guideline E-15 and in Section 1640 of the CIA's Standards of Practice.

Most consulting firms maintain extensive internal quality control and peer review systems, and practice audits. Pension actuarial reports that are filed with the provincial and federal regulators are subject to review by those bodies, which may on occasion request independent reviews.

The CIA has standards of practice that apply to any peer review undertaken by an actuary, but it does not at present have a mandatory system in place for external review by the profession of pension actuarial work. With such a system in place, we would not see the need for further review or scrutiny of the work exclusively reserved to actuaries.

Q 1.6 Could other professionals work more closely with actuaries or in related functions to help maintain and improve actuarial effectiveness?

A 1.6 (a) As described in A 1.11, the CIA works closely with the CICA.

(b) We consulted with external legal advisors on how their profession's discipline systems work when we restructured our discipline process. In addition, the task force (responsible for the restructure) contained, as full members, a lawyer and an accountant, both of whom had had extensive hands-on experience with their respective professions' disciplinary systems. Further, the task force conducted interviews with or sought written submissions from judges who had participated in prior tribunals, lawyers who had represented respondents in prior cases, some regulators, as well as with some CIA members who had been respondents in prior cases.

Accountability of actuaries

Q 1.7 To what extent should actuaries accept some responsibility for their role in designing financial services products that have subsequently turned out not to be “fit for purpose” for consumers? Why were these issues not brought to light by the profession earlier and therefore perpetuated to the detriment of consumers? What lessons can be drawn from these experiences for the future?

A 1.7 We are not familiar with the specific situation(s) referred to above, and we are not aware of a similar situation in Canada.

In Canada, the fact that consumers did not end up needing the product designed would not necessarily mean that the actuary would be legally responsible for the situation. This would depend on the specific facts of the matter and on numerous other factors, including whether a court of law decided that the actuary owed a duty of care to the consumers, and whether the actuary’s acts or omissions resulted in damages suffered by these consumers. Ultimately, a court of law would decide on the issue of liability.

In addition, the CIA has a discipline process (described in our response to question 2.39), which is also a possible avenue for consumers to raise issues with the actuarial profession.

If the work of an actuary was done in bad faith, or constituted fraud (for example), this would constitute a violation of the CIA Rules of Professional Conduct, and could lead to a suspension or expulsion of the actuary’s membership in the CIA.

Q 1.8 Are actuaries sufficiently accountable for their actions? To whom should actuaries be primarily accountable – to their clients or employers, to pension fund trustees or sponsors, or to a broader public interest, which encompasses the strength and stability of the insurance and pension sectors and the interests of those consumers involved?

A 1.8 The responsibilities of actuaries in their professional activities are complex and difficult to describe in a few words.

In Canada, actuaries are generally accountable to their clients and/or employers based on a contractual relationship. Depending on the situation, their client may be an employer, an insurance company, a plan sponsor, pension fund trustees or pension plan members or beneficiaries. Actuaries must always disclose to whom they are providing advice. If the actuary provides bad advice to his or her client or employer, he could be held liable in contract for damages suffered by that client or employer.

Like other professionals, actuaries have a general duty to the public in that they must always act “in a manner to fulfil the profession’s responsibility to the public” (Rule 1), in that actuaries must “not be associated with anything which the member knows or should know is false or misleading” (Annotation 1-2), and in that actuaries “shall not engage in any professional conduct involving dishonesty, fraud, deceit or misrepresentation or

commit any act that reflects adversely on the actuarial profession” (Annotation 1-3). (The references are to the CIA’s Rules of Professional Conduct.)

Q 1.10 Are actuaries sufficiently liable for their actions? If actuaries provide poor advice, to whom should they pay compensation?

A 1.10 This appears to be a question of law. The following is our understanding of the law as it generally would apply in Canada, noting that there may be differences between provinces.

Actuaries are generally liable to their clients and/or employers based on a contractual relationship. Depending on the situation, their client may be an employer, a plan sponsor, pension fund trustees or pension plan members or beneficiaries. If the actuary provides bad advice to his or her client or employer, legal proceedings may be taken and the actuary could be held liable in contract for damages that may have been suffered by that client or employer if the court decides that the actuary’s acts or omissions caused the damages.

The Profession

Q 1.11 How effectively does the Profession engage with government, business, regulators and other professions?

A 1.11 In Canada the CIA meets at least once a year with

- OSFI
- The major provincial regulators
- CAPSA (the Canadian Association of Pension Supervisory Authorities, an association representing all of the pension regulatory bodies)
- CLHIA (the Canadian Life & Health Insurance Association, the industry body for life insurance companies)
- IBC (the Insurance Bureau of Canada, the industry body for P&C companies)
- CICA (the Canadian Institute of Chartered Accountants)

A major reason for these meetings is to obtain the views of those bodies as to CIA standards that should be written or modified. The CIA is often invited to, and does, provide input to the regulators or the CICA when those bodies are developing new regulations and/or standards. In addition, if those bodies have common interests with those of the CIA, we try to work together to develop a solution.

Staff of the regulators participate on many CIA committees.

In general our relationships with these bodies are, and have been very effective. For example, one result of these ongoing meetings is that, in Canada, insurance companies have the same set of books for regulatory (solvency) purposes and for financial reporting under GAAP. Another example is the Joint Policy Statement developed with the CICA (see A1.4). A third example is that the CIA, the Insurance Accounting Task Force of the

Canadian Accounting Standards Board, the CLHIA, the Canadian Life and Health Insurance Corporation (CompCorp), the IBC and OSFI submitted a joint response to the International Accounting Standards Board on the subject of insurance accounting in 2002.

In addition to these periodic meetings, the CIA makes submissions to and appears before parliamentary committees or commissions, provides speakers for conferences, and consults with actuarial professions in other countries.

Q 1.12 Has the Profession successfully expanded the horizons of actuarial knowledge and promoted innovation?

A 1.12 It has in Canada. Examples include:

Life insurance – Canadian Asset/Liability Valuation Method (“CALM”); pricing and valuation of segregated fund guarantees; pricing and valuation of interest rate guarantees; DCAT report (on the expected future financial condition of the company, as required by Section 368 of the Insurance Companies Act); “Earnings by Source” (see A 2.8 for details)

P&C insurance – Stochastic simulation of future years’ financial results, reflecting changes in a number of assumptions, not just a single assumption; the use of stochastic methods to estimate loss reserves; the use of more sophisticated tools to set rates; the reflection of the time value of money in the determination of loss reserves (i.e. “discounting” of reserves); DCAT report

Pensions – Stochastic asset-liability modeling of future financial conditions of a pension plan, as a tool for setting funding and investment policies; active research into public policy principles and alternative innovative approaches for funding defined benefit pension plans.

Q 1.13 Has the Profession done enough to promote the work of the actuarial profession?

A 1.13 The CIA has actively promoted the application of actuarial skills and techniques in non-traditional areas of practice, but we think that we could do more. We believe the skills and training of actuaries could be applied in non-traditional roles such as publicly funded health insurance, and various risk management activities (see A 1.2 above).

Q 1.14 (a) Are there any aspects of the Profession’s governance structure that you would like to bring to the attention of the review? (b) Do the Profession’s various decision-making bodies represent a diverse range of interests? (c) Should there be greater lay input into the Profession’s key decision-making bodies?

A 1.14 The CIA has in place

- Rules of Professional Conduct
- Bylaws
- Standards of Practice
- Educational standards – both to qualify, and post-qualification (e.g. Continuing Professional Development (“CPD”) requirements)
- An effective public discipline process (see our response to question 2.39)

Most of these have been in place for many years, although subject to frequent update.

The CIA was one of the founding members of the restructured International Actuarial Association (IAA). The restructuring was undertaken to create an international professional body for actuarial organizations. In order to be a full member of the IAA, an actuarial organization must have in place:

- a code of professional conduct which meets certain criteria and contains a number of mandatory requirements
- a discipline process which meets certain criteria
- (by 2005) minimum educational requirements as set out in the IAA syllabus

The CIA not only meets these requirements but exceeds them.

In general we think that our governance structure has worked and does work well. The following features are under review, and changes may result.

1. Standards cannot be adopted or amended without “due process” being followed. We are trying to develop ways of implementing new standards faster (to recognize things such as rapid change in investment and business marketplaces) without adversely jeopardizing due process.
2. The Board of Directors is about to discuss a requirement that the Practice Standards Council (which adopts new or changed standards), and the Committee on Professional Conduct (which is responsible for discipline) include some non-actuaries.

Entry into the Profession

Q 1.15 How important an influence on the Profession are the companies that recruit and train student actuaries? To what extent is the curriculum shaped by the needs of employers? Is this good or bad?

A 1.15 In Canada, initial training of most student actuaries is done by about ten universities that offer courses in actuarial mathematics. The balance of the training is generally done by self-study. Most student actuaries write the exams co-sponsored by the CIA with the Casualty Actuarial Society (CAS) and the Society of Actuaries (SOA). The

CIA also has an additional exam that tests individuals on, among other things, nation-specific matters pertinent to Canada.

The training of actuaries is a combination of university courses, self-study (for the exams set by the three actuarial bodies) and on-the-job training by employers. Consideration is being given to increasing the role played by universities. The exam curriculum is set mainly by the Society of Actuaries, the Casualty Actuarial Society and the CIA, recognizing the skills likely to be needed by actuaries.

Many companies provide additional training and support for actuarial students. Examples include internal training courses, paid study time, financial assistance for examinations and books, and guidance from senior actuaries who act as mentors.

The education system that is jointly operated by the SOA, CAS and CIA is maintained by volunteer actuaries supported by paid staff. Typically, volunteers in the education system act as individuals and not as company representatives. Actuarial employers are recognized as stakeholders in the education of actuaries and their opinions were sought as part of the current redesign of the education system of the SOA/CAS/CIA. We think the education system is enriched if it can reflect a balance between academic and business perspectives.

Q 1.17 In particular, do you think that it should take on average 5 or 6 years for an actuary to qualify? Is there the right balance between academic and practical expertise, sufficient breadth of subjects studied or not studied and the appropriate degree of specialization at the right time?

A 1.17 It is important, particularly if an actuary is carrying out a role that is reserved by statute, that the actuary is qualified to carry out his professional duties and responsibilities. Having said that, we believe there may be a willingness to consider a shorter time to qualification, particularly if some training takes place as part of an undergraduate degree. (The time for an actuary to qualify in Canada is similar to that in the UK.)

Although an actuary who has attained the FCIA designation is permitted to practice as an actuary and sign certificates, say for a pension plan, the Rules of Professional Conduct require that actuaries practice only where they are qualified to do so. In practice, few newly qualified actuaries sign actuarial certificates without guidance from a more experienced colleague. Through the Continuing Professional Development requirements, actuaries are required to ensure their knowledge is current and relevant before they sign an actuarial certificate.

Q 1.18 Has actuarial education and training kept up to date with developments, particularly in financial markets and in financial economics?

A 1.18. The actuarial profession in Canada (and the USA) works very hard to ensure that the education system is current and relevant. A new system was introduced in 2000, and that system is now being updated substantially, with an expected implementation release in 2005-07.

Education in investment and financial topics is an integral part of the syllabus. In the current education system, topics in corporate finance and economics are covered in Course 2. Course 6 covers advanced topics in investments, capital markets, derivatives, principles of portfolio management and asset-liability management. All actuaries write courses 2 and 6. For Course 8, actuaries select specialized fields related to their interest and career aspirations. There are specific tracks for actuaries who want to specialize in finance or investments. (P&C actuaries write a different set of exams, but the syllabus for their Part 8 is similar to that in Courses 6 and 8 described above.)

The CIA has formed a task force to ensure that the profession is responding to emerging issues in financial economics. The new actuarial education system will introduce a track in risk management in recognition of the broader involvement of actuaries in emerging areas of finance and financial economics. There have been sessions on financial economics and its impact on actuarial practice at general meetings of the CIA.

Q 1.20 Is there sufficient diversity in the composition of the student body and are there enough links with other professions' qualifications?

A 1.20 In Canada, there are no perceived problems with the diversity (we interpret this to mean the subjects studied at university) of the student body. Little or no credit is given for exams in other (i.e. non-actuarial) professional bodies, other than as part of a candidate's professional development program (provided such examinations are relevant).

Q 1.21 Is it of concern that, apart from a few universities that offer degrees in actuarial science, there is only a single provider of actuarial education in the UK?

A 1.21. This situation does not apply in Canada. As noted earlier, there are about ten universities that offer courses in actuarial mathematics. The universities are spread out across the country, so allowing students interested in the actuarial profession with an opportunity to pursue an education in actuarial science in many parts of Canada. Post-university, training for the exams is generally done on a self-study basis. Some, but not all students attend seminars (put on by universities or one of the North American actuarial bodies) or subscribe to some commercial self-study guides. There is nothing equivalent to the "single provider of actuarial education in the UK".

The market for actuarial services

Q 1.22 What have been the main drivers for demand for actuarial services over the last ten years? How do you see the demand for actuarial services evolving in the future?

A 1.22 In Canada, the main drivers have been:

- (a) The demand by Property & Casualty insurance companies for actuarial support
- (b) Pension plan reform
- (c) The creation of pension committees for pension plans in Quebec – this has meant that the actuary’s client in Quebec is now broader than just the employer
- (d) Workers compensation – provincial governments have been increasing their in-house actuarial staffs
- (e) The demutualization of all the large mutual life insurance companies
- (f) The introduction of DCAT reports, analysis of earnings by source, and embedded value reporting in insurance companies
- (g) The establishment of Risk Officers by many insurance companies, many of whom are actuaries

Partly offsetting these has been a reduction in the number of insurance companies (due to mergers and acquisitions) and a decline in the number of defined benefit pension plans. In future we expect the demand to come mainly from areas that are currently viewed as non-traditional.

Q 1.23 Do the consumers of actuarial services have access to a wide range of providers or is choice in this market in any way constrained? If so, in what way and why is consumer choice limited?

A 1.23 In Canada, we believe that there is a wide range of consulting firms from which to choose, both for pensions and insurance. In life insurance, due to recent consolidation of the industry, it is easier than it has been for many years for insurance company employers to recruit the actuarial personnel they require. In P&C insurance, there was a shortage about ten years ago, but we do not believe that there is a shortage at present.

Q 1.24 Is it easy for consumers to switch between actuarial service providers? If not, what do you think could be done to encourage switching?

A 1.24 The main users of consulting actuarial firms in Canada are sponsors and trustees of defined benefit pension plans, and we believe that the barriers to switching are low (such as the time needed for a client to explain matters to a new consultant). Competition between consulting firms is strong. Many pension plan sponsors “test the market” periodically.

In the case of insurance, there are three major consulting firms that provide insurance consulting advice, a number of smaller firms, as well as the insurance actuarial practices of some of the major accounting firms.

Q 1.25 Do you think that those receiving actuarial advice sufficiently understand what they are being told and how the advice was produced? If not, what generates this informational shortfall, how important an influence on the market is it and what, if anything, do you think might be done about it?

A 1.25 It is not possible to answer this question with precision, but we believe that there should be no serious barriers to understanding on the part of users of our work. Users, such as directors, have a responsibility to understand any report by a professional or expert (including actuaries). If it is specialized work beyond their expertise, they have the option of acquiring independent advice. At the same time we accept that there will always be room for improvement in actuaries' communications skills.

Q 1.26 Which factors have influenced the supply of actuarial advice over the last ten years? What are likely to be the most significant influences on the industry structure in the future?

A 1.26 In Canada, the major factor has been the increasing number of people who have been studying actuarial science at Canadian universities. This is also likely to be the most significant influence in future.

Q 1.27 What determines whether actuarial advice is provided by in-house employees or external advisors or consultants? Does it reflect a clear difference in the actuarial role and function? Do firms employing in-house actuaries ever experience recruitment difficulties?

A 1.27 In Canada, all but the very smallest life insurance companies use in-house actuaries for most of their work. In general, only the larger P&C insurance companies use in-house actuaries. Consultants may be used for merger and acquisition work, or if the company is doing a new type of work for which it does not have the expertise, or if a major project has to be done in a short time and sufficient in-house resources are not available.

In the case of pension plans, most plan sponsors use consulting firms, although some of the larger sponsors have their own in-house actuaries.

Both pension consulting firms and insurance companies may use external actuarial resources when they want a second opinion.

At the present time, as noted above (A 1.23), recruiting in-house actuarial resources is not very difficult for insurance companies or pension consulting firms.

Q 1.28 What is your overall assessment of the degree of competition in the market for actuarial services? Is competition constrained by existing professional rules or conventions? If so, which ones and to what extent could they be modified?

A 1.28 As mentioned above (A 1.24), competition is fairly high in Canada. We do not think that competition is constrained by existing professional rules and conventions.

International comparisons

Q 1.30 How are the skills and professionalism of UK actuaries and the UK actuarial profession regarded internationally?

A 1.30 Despite the criticisms of the UK actuarial profession in the recent report by Lord Penrose, the CIA respects the UK actuarial profession. The CIA has copied and/or adapted many features from the UK in developing its own structure. (The Canadian regulators have also copied some features, such as the role of the appointed actuary – although enhancements and/or changes were made before adoption in Canada.)

Q 1.31 How easy is it for actuaries to work across international boundaries?

A 1.31 The CIA has signed “Mutual Recognition Agreements” with some other professional organizations (including the Institute of Actuaries and the Faculty of Actuaries) that allow actuaries from those organizations to work (e.g. sign actuarial reports) in Canada once they have acquired the necessary Canadian experience. Thus, if a British actuary immigrated to Canada, he/she would probably be able to start signing reports within a year of arrival in Canada.

It should be noted that many actuaries already work across international boundaries, for example in emerging markets or in collaboration with local actuaries. The requirement to be licensed in a particular country normally exists only when doing work that is reserved by statute.

Q 1.32 Do you agree that there are lessons to be drawn from a consideration of the work of actuaries in Canada, Australia and the US? If so, on what aspects of the work of actuaries in those countries do you think the review should focus?

A 1.32 In the case of Canada, we would draw particular attention to the following (which are described in more detail in other parts of our response and/or listed in the Appendix)

- The education system (both before qualification, and continuing education)
- The CIA's Rules of Professional Conduct (in particular Rule 13 – this describes when one actuary is required to report another actuary to the profession because of material non-compliance with the Rules (of Professional Conduct) or with the standards of practice.)
- The CIA's Standards of Practice
- The provision of Educational Notes
- Mandatory external peer review for appointed actuaries of an insurance company
- The CIA's discipline system (see A 2.39)
- The role of the actuary in an insurance company as prescribed by the Insurance Companies Act (see introduction)
- In an insurance company, the roles of the appointed actuary, the CEO and the CFO must be held by different people (except with the permission of OSFI)
- The level of detail (subject to annual update by OSFI) in the appointed actuary's report, and the fact that it is reviewed and can be questioned by OSFI
- The requirement for an annual report by an appointed actuary to the board of directors (or the audit committee of the board) regarding the current financial position and expected future financial condition of an insurance company
- The protection given to the actuary of an insurance company by the Insurance Companies Act when he reports a matter to OSFI (sections 369 and 370)
- Frequent communication between the CIA and OSFI, other regulators, the CICA and industry associations (see A 1.11)
- Active participation by OSFI's actuaries on many CIA committees

Q 1.33 Are there any EU or other countries that the review should be considering in seeking to identify best practice?

A 1.33 We understand that you have written to about a dozen actuarial organizations (including those in Canada, USA and Australia) asking for information about their organizations. We would not add any countries to your list.

Other professions

Q 1.35 Are there any forthcoming EU directives or international accounting standards that are likely to have an impact on the actuarial role?

A 1.35 The current development of International Financial Reporting Standards for insurance contracts, financial instruments, pensions and other post-employment benefit plans.

Chapter 2 – The current regulatory framework of the actuarial profession

The regulatory role of the Profession

Q 2.1 What should be the objective of a regulatory framework for the actuarial profession?

A 2.1 In Canada, we believe that the profession should be self-regulatory, operating within a strong system of corporate governance (education, standards, discipline, etc.).

Where roles are reserved for actuaries by regulation, the regulatory framework should

- Define the role of the actuary
- Allow the regulator to review the work of an actuary and question the actuary directly if necessary. If the regulator has concerns about the work of an actuary it should be able to lodge a complaint with the disciplinary body of the actuarial profession and/or require that the work be reviewed or redone by a different actuary.
- Support the actuary if he/she is required to take action that may be contrary to the wishes of his client or employer

All of the above exists in Canada. In the case of an insurance company, the following specific provisions in the Insurance Companies Act support the actuary:

- The actuary is appointed by the board of directors, not by a specific individual
- If the actuary resigns his position for any reason, or his appointment is revoked, the actuary is required to “submit to the directors of the company and the Superintendent a written statement of the circumstances and reasons why the actuary resigned or why, in the actuary’s opinion, the actuary’s appointment was revoked” (section 363). The actuary’s intended replacement may not accept the appointment without requesting and receiving from the other actuary the statement described above (section 364).
- If the actuary discovers any matter(s) that may have “material adverse effects on the financial condition of the company and require rectification”, he is required to “report in writing to the chief executive officer and the chief financial officer of the company”. A copy of this report must be sent to the directors. If the actuary considers that “suitable action is not being taken to rectify the matters”, he is required to send a copy of his report to the Superintendent (Section 369).
- Under Section 370, the actuary is provided with protection from lawsuits when he reports to the Superintendent as described above.

Q 2.2 (a) What is your overall view of the strengths and weaknesses of the current self-regulatory approach as applied to actuaries by the professional bodies? (b) Does it adequately protect the interests of consumers? (c) If not, are there key aspects of the regulatory framework that you think should be changed? (d) Is there too much emphasis on reserved roles for individual actuaries?

A 2.2 (a) The benefit of a self-regulatory system is that it should permit a focus on quality work, with logical standards, independent of any political considerations. The CIA's due process for adoption of standards requires general acceptance from members, resulting in a buy-in by members, and a willingness to work within the spirit of the standards if a new situation develops.

If the regulators (of the insurance companies and pension plans) think that the standards developed by the actuarial profession are incomplete or inadequate, then they should be able to impose their own standards or mandate stronger standards. In practice in Canada, there have been very few instances where the regulators have considered it necessary to do this. The regulators express opinions to the CIA, and actuaries working for the regulators serve on many CIA committees (e.g. those developing standards).

As noted in A 2.1 and A 2.20, if the regulators think that the existing standards are not being followed, they should be able to complain to a disciplinary body or (in extreme cases) to refuse to accept the work of the actuary.

An additional reason for standards to be developed by actuaries is the globalization of the insurance industry and the movement towards international accounting and actuarial standards for insurance and pensions. We believe that it is easier to have common international actuarial standards if these are developed by representatives of different actuarial bodies than if they were developed by different governments. International actuarial standards can be adopted by a single body (the International Actuarial Association); the adoption of global actuarial standards by a large number of government regulators would likely be much slower.

(b) and (c) See answer to Q 2.3 below

(d) The calculation of actuarial liabilities in an insurance company or a pension plan is both complex and specialized, and we believe should be reserved for actuaries (as is the case in Canada).

Q 2.3 Does the Profession's dual responsibility for representing its members to the outside world and regulating them in the public interest create a conflict of interest? Is this conflict acceptable?

A 2.3 In Canada we do not believe there is any conflict. The regulation of members by the profession results in the CIA being in a better position to represent them. In this we believe we are similar to other professions in Canada.

If there was a conflict, the public interest comes first. The CIA's first Rule (of Professional Conduct) states: "A member shall act honestly, with integrity and competence, and in a manner to fulfil the profession's responsibility to the public and to uphold the reputation of the actuarial profession". Annotation 1.2 states: "It is the professional responsibility of the member not to be associated with anything which the

member knows or should know is false or misleading”. Further, to avoid a possible conflict, there is some separation of duties within the CIA. For example, services to members are handled, in general, by different people than those who are responsible for Standards of Practices.

Q 2.4 Are there areas where you believe the burden of regulation is disproportionate and should be reduced? Are there areas that you believe should continue to be self-regulated by the professional bodies?

A 2.4 In Canada, in general the CIA does not see the need for significant changes.

At present, the board of directors and all major committees of the CIA contain only actuaries. As noted in A 1.14, the Board of Directors is about to discuss a requirement that the Practice Standards Council (which adopts new or changed standards), and the Committee on Professional Conduct (which is responsible for discipline) include some non-actuaries.

Scope of actuaries’ statutory or reserved roles

Q 2.6 Do you have any other concerns about the role of actuaries working in life assurance?

A 2.6 In Canada, questions have been raised about the fact that the appointed actuary of an insurance company is often an employee of the company. This has been at least partly addressed by mandatory external peer review. In addition, Section 1420 of the Standards of Practice states that “The financial interest of the actuary should not influence the result of the actuary’s work”.

Q 2.7 Do non-executive directors in life insurers have sufficient expertise and information available to them to enable them to challenge the actuarial calculations of the value of the insurer’s assets and liabilities or whether policyholders are being treated fairly?

A2.7. In Canada, we believe that the non-executive directors have access to the information and resources needed to understand what may be presented to them, and to carry out their responsibilities as directors. As noted in A 1.25, if the work is specialized work beyond the expertise of the directors, they have the option of acquiring independent advice.

Q 2.8 Will the FSA’s realistic reporting basis make actuarial calculations more accessible for non-actuaries?

A 2.8 We cannot comment on the basis used in the UK. In Canada a “realistic reporting basis” for insurance was introduced in the early 1990’s. We believe that this has improved the understanding of a company’s financial results by non-actuaries and has also improved the management of the company. A more recent development in Canada has been for some companies to report on “Earnings by Source” – this gives additional explanation of the underlying sources of earnings. The CIA is preparing an Educational Note on this subject, partly so that different companies will report Earnings by Source in a consistent way.

The role of the Scheme Actuary

Q 2.9 Should the (pension) Scheme Actuary’s role be reserved exclusively for actuaries? Could other professionals provide similar advice?

A 2.9 In Canada, this role is reserved for actuaries and we think this is necessary. No other group of individuals has the specialized training needed to carry out this role (or the professional structure within which to operate).

Q 2.10 (a) Do pension scheme trustees have the expertise and information to question and challenge the advice of Scheme Actuaries? (b) In the absence of effective challenge from trustees are Scheme Actuaries effectively making policy decisions by default on the distribution of benefits between different generations of pensioners and on funding strategies?

A 2.10 (a) In Canada, the body with principal day-to-day management of the affairs of the pension plan is known as the “administrator”. While the level of expertise and knowledge varies, it should be possible for a pension plan administrator, with some experience, to question and challenge the work of the pension actuary. In recent years, governance issues have increased the need for the administrator to be better educated.

(b) From our knowledge of the situation in the UK, the situation you describe would rarely occur in Canada. The role of the pension actuary in Canada is primarily one of recommending funding levels for a pension plan within upper and lower bounds established by pension and tax legislation, and not one of “distributing benefits between different generations of pensioners”. It is the plan sponsor, through the trust agreement and plan document, who determines the level of benefits to be paid and the level of funding contributions. Pension plan administrators (who take their authority from the trust agreement, the text of the plan rules, and the law) rarely have the authority to determine benefits or funding policies.

For one particular class of pension plans in Canada, known as multi-employer plans, the administrator does have authority to set the level of benefits, as well as an obligation to reduce benefits if the financial position of the plan deteriorates. Employers are contractually committed to contribute to these plans at a fixed rate established by negotiation with a union. The administrator is usually constituted as a board of trustees

with significant representation by plan members. Trustees must therefore be accountable to the interests of the members in making decisions about changes to the benefits, and in demonstrating to members that they will receive fair value for the contributions made on their behalf in lieu of alternative forms of compensation. The accountability mechanisms in the structure of these plans place effective authority for policy decisions in the hands of the trustees.

Q 2.11 Is there sufficient audit or peer review of the Scheme Actuary's advice to provide checks and balances on the influence that could potentially be exerted by the Scheme Actuary?

A 2.11 In Canada, as noted earlier in A 1.5, at present the work of the Scheme Actuary is subject only to internal peer review (by other members of the consulting firm that employs the Scheme Actuary). The external auditor tends to look only at the assets in a pension plan, not the liabilities. As noted earlier, the pension regulators may review the work of the actuary.

Consideration is being given to some form of external review – but not for every report by a Scheme Actuary. There are practical difficulties and cost limitations to reviewing every report.

Q 2.12 (a) To whom should the Scheme Actuary be accountable? (b) What will be the effect of the intended removal of the minimum funding requirement on the potential for conflicts of interests if the same Scheme Actuary is advising both the trustees and the pension scheme sponsor? (c) Is there a need for a separation of those roles?

A 2.12 (a) Please see our responses to questions 1.7, 1.8 and 1.10

(b) We are not able to comment on this, due to lack of knowledge of the UK situation.

(d) Separation of roles in this context is, we believe, unique to the UK trustee system and is not generally applicable in Canada.

Q 2.14 Are there any other issues relating to actuaries' statutory or non-statutory roles in advising pension fund trustees and pension fund sponsors that you would like to bring to the attention of the review?

A 2.14 In Canada, we are not aware of any other profession and/or group of experts that takes such a responsibility for the interests of the members of a pension plan. For example, we do not think that the investment manager or the administrator (who may be an employee of the plan sponsor) would take such a responsibility.

General insurance and the role of the Syndicate Actuary

Note: In Canada the role of the (Lloyds) syndicate actuary does not exist.

Q 2.15 What are the implications for actuaries of the FSA's moves to a realistic reporting regime in general insurance?

A 2.15 We cannot comment on the basis used in the UK. In Canada a "realistic reporting basis" was introduced in the early 1990's and we believe that this has improved the understanding of a company's financial results by non-actuaries.

Q 2.16 Do you agree that a reserved role for actuaries in general insurance is unnecessary?

A 2.16 In Canada, there is a reserved role for actuaries in general (P&C) insurance, similar to that in life insurance companies. This was introduced in the late 1980's. We believe that Canada was the first country to require an actuarial opinion for P&C companies. We believe that this reserved role is necessary, for the reasons given in A 1.3.

Q 2.17 Are there any other issues specifically related to the role, responsibilities or regulation of actuaries working in general insurance that you would like to draw to the attention of the review?

A 2.17 In general, our comments in respect of life insurance apply also to P&C insurance.

Investment

Q 2.18 Are there any specific issues faced by actuaries working in institutional investment that you would like to draw to the attention of the review team?

A 2.18 In Canada, there are no investment roles reserved for actuaries. Such actuaries are, however, still subject to the CIA's Rules of Professional Conduct (and maybe also to those of other bodies).

Maintenance of professional competence

Q 2.20 Is there the right balance between the Profession issuing practicing certificates and regulators giving their approval?

A 2.20 In Canada, the CIA does not issue practice certificates. If a regulator is dissatisfied with the work of an actuary, it can:

- Remove an actuary from his role as the appointed actuary of an insurance company
- Require that the methods and assumptions be reviewed by a second actuary
- Refuse to accept the report of a pension actuary

- Request a review by a committee of the CIA
- Make a complaint to the CIA's discipline committee

Q 2.22 Do you support the Profession's proposals to extend the concept of practising certificates to all actuaries who give advice on actuarial matters?

A 2.22 In Canada, we do not see the need to do this at this time.

Whistle blowing

Q 2.24 Are there appropriate legal and professional duties and safeguards for disclosures by actuaries to protect the public interest in regulated sectors?

A 2.24. We answer this question in combination with Q 2.25 below.

Q 2.25 Is it sufficiently clear to actuaries and others when they should report concerns to the regulators and the Profession?

A 2.25. The duties of an actuary of an insurance company are described in the Insurance Companies Act. Section 369 describes when the actuary is required to report a matter to the regulators. As noted in A 2.1, under Section 370 the actuary is provided with protection from lawsuits when he reports to the regulators under Section 369.

At present there is no requirement for a pension actuary to report a matter to the relevant regulator. CAPSA (the association representing all of the pension regulatory authority bodies) has drafted proposed principles for a new model law regulating pension plans – these include a “whistle blowing” requirement (not just for actuaries).

In addition, the CIA's Rule 13 describes when one actuary is required to report another actuary to the profession because of material non-compliance with the Rules (of Professional Conduct) or with the standards of practice.

Q 2.26 Is there an appropriate level of disclosure by actuaries to protect the public interest?

A 2.26 In Canada, in the case of insurance companies, a summary of the actuary's opinion (as to reserves) is printed in the financial statements, along with the auditor's opinion. If the actuary thinks that the financial statements may be misleading (even if legal), he is required to say so. An example of this arises for P&C companies where published liabilities are not discounted (to reflect the time value of money). The actuary would comment on this in his opinion.

For pension plans, actuarial reports are available for review by plan members on request. Disclosure in the report must include a summary of the plan rules and of the data used for the valuation, and the financial position of the plan as if it had been wound up on the valuation date.

Standard setting

Q 2.27 (a) Does the Profession's technical guidance, as set out in the Manual of Actuarial Practice, provide unambiguous, up-to-date and clear standards for practising actuaries and other professionals e.g. auditors, who work with them? (b) Do you agree with Lord Penrose's view that professional guidance in the past has not protected policyholders' interests?

A 2.27 (a) It is doubtful if any set of standards, particularly those for a complex subject such as insurance or pensions, could be completely "unambiguous, up-to-date and clear", especially when external factors are continuously changing. In Canada we consider that our standards do cover most situations that an actuary may face. In addition, technical committees exist to provide guidance and/or interpretation to actuaries requesting assistance.

(b) We are not aware of any recent situations in Canada where policyholders' interests have not been protected because of inadequate actuarial standards.

Q 2.28 Does the technical guidance need to be updated more regularly and are fast-track processes required to provide guidance on urgent issues?

A 2.28 In Canada, immediate issues are referred to the relevant practice committee. Educational Notes can be issued quickly without the need to go through the same level of due process required when a standard is adopted. In the case of life insurance, towards the end of each year, the relevant practice committee issues a letter to appointed actuaries that covers current topics.

Q 2.29 Who should provide the guidance: the Profession, the regulators or the government?

A 2.29 For the reasons stated in A 2.2, we think that it is better if the Profession provides the guidance. From time to time this may (or should) be influenced by comments or requests from the regulators. As noted earlier, actuaries working for the regulators often serve on CIA committees.

Q 2.30 Is there a need to reduce the level of discretion permitted within the guidance to come to some generally accepted professional practices?

A 2.30 In Canada, the Standards of Practice, especially for insurance, already limit the level of discretion permitted. For pensions, the combined constraints of minimum funding required by pension law and maximum funding permitted by tax law produce a reasonable range within which the actuary may exercise discretion.

Q 2.32 Does the Profession work closely enough with other professions e.g. accountancy, to ensure that its standards are widely recognised and to influence other profession's standards where appropriate, and to ensure that there are no regulatory gaps or overlaps in standards?

A 2.32 In Canada, there has been a fairly close relationship with the accounting profession, and we think this has been very helpful. An example of this has been the Joint Policy Statement (see A 1.4). In the international arena, the International Actuarial Association is contributing to the development of International Financial Reporting Standards for insurance and pensions.

Openness, peer review and audit of actuarial work

Q 2.33 Do you agree with Lord Penrose's assessment of the lack of openness and transparency of the profession to non-actuaries, including other professionals and their clients?

A 2.33 We cannot comment on the situation in the UK. In the case of Canada, please see our response to question 1.25.

Q 2.34 What steps can be taken to improve communications between the actuarial profession and their clients or other professionals?

A 2.34 Please see our response to question 1.25.

Q 2.36 When should actuarial opinions be directly addressed or otherwise communicated to members of the public, such as policyholders or scheme members?

A 2.36 In Canada, in the case of insurance companies a summary of the actuary's opinion must be included in the company's financial statement (Section 331(1)(c)). In general, it has equal prominence with the opinion of the auditor. As noted in A 2.26, if the actuary thinks that the financial statements are misleading his opinion is required to state this.

For pension plans, actuarial reports are available for review by plan members on request. Some financial information is disclosed on plan members' statements (in some provinces this is required).

Q 2.37 Is there a need to further widen the scope of actuarial activities that are subject to peer review or other scrutiny – for example into Lloyd’s syndicates and general insurance?

A 2.37 We cannot comment on the situation in the UK. In the case of Canada, please see our response to question 1.5.

Monitoring, complaints and disciplinary schemes

Q 2.39 Is the Profession’s past complaints over 15 years a sign of a successful profession or an indication that monitoring and discipline procedures were not effective?

A 2.39 We do not have enough knowledge of the UK environment to be able to respond to this specific question. We observe, however, that it would be helpful to know the seriousness of the complaints.

The CIA has a discipline process; the penalties that may be imposed range from a private admonishment to an expulsion. OSFI and the provincial regulators are aware of the CIA’s discipline process, and have filed complaints against actuaries. In addition, the rules of the CIA require a member to report a perceived breach of rules and/or standards if, after discussing the matter with the initial actuary, rectification has not been achieved. Rule 13 describes the procedures that a CIA member must comply with if the member becomes aware of any material non compliance by another member with the Rules (of Professional Conduct) or with the standards of practice. Complaints may also be made by a member of the public.

If the complaint appears to have merit, the Committee on Professional Conduct will refer the matter to an Investigation Team for investigation, following which the CPC considers the matter again and decides whether to dismiss the matter or to file charges. The charge is then referred to a private admonishment process, to a fast-track process or to a hearing before a Disciplinary Tribunal composed of a retired judge and 2 actuaries.

In Canada, there have been 88 complaints made and completed since 1992 (as well as another 13 current cases that might lead to disciplinary action). 18 of those complaints resulted in sanctions, ranging from private admonishment to permanent expulsion from the CIA. (To put these numbers in context, at the beginning of August 2004, the CIA had 3623 members (2658 Fellows and 965 Associates), of whom 2764 (1923 Fellows and 841 Associates) were employed in Canada)

Q 2.40 Should the review consider whether a fully independent disciplinary process is needed?

A 2.40 Given the technical nature and complexity of some of the issues, a fully independent (we interpret this to mean no actuaries) disciplinary process is not practical. In Canada, any disciplinary tribunal of the CIA will always contain a retired judge as one of the three members of the panel. As noted in A 1.14, the Board of Directors is about to

discuss a requirement that the Committee on Professional Conduct (which is responsible for discipline) include some non-actuaries.

Q 2.41 In the accountancy profession the joint monitoring unit verifies whether firms are complying with actuarial standards. Given Lord Penrose's criticisms and the long-term nature of actuarial advice, is there a need to move away from reactive complaint-driven disciplinary procedures to a more proactive regime of monitoring of compliance with professional actuarial standards? If so, who should have the responsibility for overseeing the monitoring and disciplinary proceedings and who should bear the associated costs?

A 2.41 Some of our earlier responses (A 1.5 and A 2.11) describe the extent of external peer review in Canada.

Q 2.42 Should discipline be undertaken by the Profession or by regulators?

A 2.42 In Canada, discipline is undertaken by the Profession, but the regulators are encouraged to bring any complaints or concerns to the attention of the CIA.

Q 2.43 Do regulators make appropriate use of actuarial expertise to supervise the work of actuaries?

A 2.43 In Canada, the federal regulators ("OSFI") have their own actuarial staffs. Some of the larger provincial regulators, for example Ontario and Quebec, also have actuaries on their staff. All of the regulators may, and do, hire actuaries on a consulting basis.

Chapter 3 – Roles and Responsibilities of the Government Actuary’s Department

Q 3.8 How does the GAD compare with structures used in other countries for the effective provision of actuarial services to government?

A 3.8 In Canada, OSFI is the government body that regulates all federally licensed financial institutions as well as some pension plans. A number of actuaries work for OSFI – as part of OSFI, not as a separate department. About half of the actuaries working for OSFI are associated with regulation (of insurance companies and some pension plans), but some actuaries also provide other actuarial services to government. For example, actuarial services in connection with the Canada Pension Plan are provided by members of OSFI.

APPENDIX A
Important documents

Rules of Professional Conduct <http://www.actuaries.ca/publications/2003/203099e.pdf>

Bylaws <http://www.actuaries.ca/publications/2003/203098e.pdf>

Standards of Practice http://www.actuaries.ca/publications/sop_current_e.html

Continuing Professional Development requirements

<http://www.actuaries.ca/publications/1995/9520e.pdf>

<http://www.actuaries.ca/publications/2004/204042e.pdf>

Insurance Companies Act <http://laws.justice.gc.ca/en/I-11.8/74845.html>

OSFI Guideline E-15 – describing the form of external review (of the work of an insurance company’s actuary) that is required by OSFI

http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/e15_final_e.pdf

Joint Policy Statement (this appears as Section 1630 of the Standards of Practice)

<http://www.actuaries.ca/publications/1991/9115e.pdf>

APPENDIX B Abbreviations

CALM – Canadian Asset/Liability Valuation Method

CAPSA – Canadian Association of Pension Supervisory Authorities (an association representing all of the pension regulatory bodies)

CAS – Casualty Actuarial Society

CIA – Canadian Institute of Actuaries

CICA – Canadian Institute of Chartered Accountants

CLHIA – Canadian Life & Health Insurance Association (the industry body for life insurance companies)

DCAT report – Dynamic Capital Adequacy Testing report (an annual report that the appointed actuary of an insurance company must make to the board of directors on the “expected future financial condition of the company”)

FCIA – Fellow of the Canadian Institute of Actuaries

IAA – International Actuarial Association

IBC – Insurance Bureau of Canada (the industry body for P&C companies)

OSFI – Office of the Superintendent of Financial Institutions (the body that regulates most Canadian insurance companies and some pension funds)

P&C – Property and Casualty insurance (similar to general insurance in the UK)

SOA – Society of Actuaries

REPLY TO MORRIS REVIEW OF THE ACTUARIAL PROFESSION IN RESPONSE TO IAA E-MAIL DATED 6 JULY, 2004

Governance Structure

The Canadian Institute of Actuaries (CIA) was established by a Private Member’s Bill of the federal Parliament of Canada in 1965 (www.actuaries.ca/publications/1965/6502e.pdf). There is only one association representing actuaries in Canada. There are no provincial associations.

Unlike other key professions in Canada, the CIA is not regulated by provincial legislation. This legal status causes several unique problems for the profession and its relationship with its members. Essentially, there is a contractual relationship between the CIA and its members, i.e., members must apply to join the Institute after meeting specific prerequisites and upon acceptance of the application, the member becomes a Fellow of the CIA and is granted the right to use the initials FCIA. In turn, the member undertakes to abide by the Institute's Rules of Professional Conduct (<http://www.actuaries.ca/publications/2003/203099e.pdf>), Bylaws (<http://www.actuaries.ca/publications/2003/203098e.pdf>), Standards of Practice (<http://www.actuaries.ca/publications/2002/202025e.pdf>) and other official guidance published by the Institute from time-to-time. Failure to abide by the above-mentioned documents can result in a member losing the right to hold himself/herself out as an FCIA. This aspect of the relationship between the member and the Institute will be discussed further.

The governance structure of the Institute comprises an elected Board consisting of a President, a President-elect, an Immediate Past President, a Secretary-Treasurer and 12 Directors. The term of office of the President is one year in each capacity, the Secretary-Treasurer is elected for a two-year term, and Directors have three-year terms.

The Board normally meets four times a year and may conduct its business via conference calls and electronic voting for routine matters between the scheduled face-to-face meetings.

The Board may appoint subordinate councils to assist in the governance of the Institute. Currently, there are three subordinate councils that deal with standards of practice, education and eligibility, and member services. The Board appoints council members normally for three-year terms. Councils comprise from six to 12 persons. Generally, council members are Fellows, but non-Fellows (Associates) and individuals external to the profession may also be appointed.

The Board and councils are supported by an indeterminate number of committees and task forces. The members of these committees and task forces are appointed by their respective councils or the Board. Committee terms of office are normally three years.

The Board, councils and selected committees are supported by a Secretariat at which there are no actuaries employed on a full-time basis, although some selected actuarial work is contracted out.

Funding

The operating budget of the CIA is approximately \$3.5 million. Sixty to seventy percent of the Institute's revenue is derived through annual membership dues. Additional revenue is gained through profits from meetings, return on investments and advertising.

Professional Standards

In accordance with the Institute's Bylaws, Standards of Practice of the Institute are developed, monitored and approved by one of the subordinate councils, namely the Practice Standards Council (PSC). The process of adopting or revising the standards follows a Due Process

(http://www.actuaries.ca/members/activities/PSC/du_e_process_e.pdf). The PSC has the authority to establish and revise that Due Process. *Inter alia*, the Due Process mandates member input prior to the approval of a final standard of practice. The only involvement of the Board is if a minimum of 50 members object to a standard of practice, the Board may be petitioned to confirm, alter or annul the standard of practice in question.

In order to establish and maintain high standards from its members, the CIA has had and continues to have a number of tools available to this end:

- Rules of Professional Conduct;
- Bylaws;
- Standards of Practice, some of which apply to all actuarial practice areas;
- Mandatory continuing professional development requirements;
- Professional meetings and seminars that provide theoretical and practical actuarial, accounting, legal and other relevant knowledge to its members to assist in their practice;
- Guidance to members from practice committees;
- A peer review process (the peer review process is described in our response to question 1.5 in the other CIA submission); and
- A disciplinary process that may result in public censure and in the extreme suspend or expel a member.

Membership Criteria

Eligibility for membership in the CIA and the right to use the designation of FCIA is determined through a formal application process; review by an eligibility committee and subsequent approval by the council that has approval authority, in this case the Eligibility and Education Council (EEC).

To qualify for Fellowship, the applicant must generally meet the following criteria (some variations may occur depending on the source of the original Fellowship):

- Fellowship in one of five designated actuarial organizations (the Institute of Actuaries, the Faculty of Actuaries, the Society of Actuaries (SOA), the Casualty Actuarial Society (CAS) and the Institute of Actuaries of Australia);
- Three years of practical actuarial experience;
- Eighteen months Canadian experience;
- Successful completion of the CIA's Practice Education Course; and
- Completion of a professional development course.

Disciplinary Process

The CIA has a formal disciplinary process that has evolved since the establishment of the Institute in 1965. The current process is outlined in section 20 of the Bylaws and is succinctly explained in a public document found at the following link:

<http://www.actuaries.ca/publications/2004/204012e.pdf>

The last significant changes to the disciplinary process occurred in 1999. These changes were preceded by a task force review of the process at that time. Not only did the CIA consult its external legal advisors, it also had both a lawyer and an accountant with hands-on experience with their respective professions' disciplinary process as full members of the principal task force. The task force conducted interviews with, or sought written submissions from, judges who had participated in prior tribunals, lawyers who had represented respondents in prior cases, some regulators and some of our members who themselves had been respondents in prior cases. The reports and recommendations leading to the changes in the process can be found at the following links:

<http://www.actuaries.ca/publications/1997/9732e.pdf>

<http://www.actuaries.ca/publications/1997/9755e.pdf>

<http://www.actuaries.ca/publications/1998/9835de.pdf>

The CIA's disciplinary process became more open (transparent) in 1991 resulting in the publication to members of sanctions against members who either pleaded guilty or were found guilty of offences. In addition, in cases of suspension or expulsion the appropriate regulatory authority and the public are notified of the suspension or expulsion.

It has been a policy of the CIA's leadership to encourage regulatory authorities to lay complaints against actuaries who are suspected of noncompliance with CIA standards or Rules of Professional Conduct. This has strengthened the relationship with regulatory authorities and the CIA, and concomitantly has had the effect of discouraging inappropriate and inadequate actuarial work.

The following paragraphs will serve as a brief summary of the CIA's disciplinary process. A more detailed description of the process is appended. However, before briefly describing the process, the requirements of the CIA Rule 13 should be explained. Rule 13 requires that in the event an actuary becomes aware of an apparent material noncompliance (with the Rules or Standards of Practice), he or she is required to discuss the situation with the other member and attempt to have the situation rectified. If rectification is not achieved, the member has an obligation to report the material noncompliance to the Committee on Professional Conduct.

The Committee on Professional Conduct is constituted to handle all disciplinary matters concerning the Institute's members. The committee is mandated to deal with every complaint against a member and any information that it may receive concerning the conduct of a member.

The committee consists of at least 10 members who are, generally, experienced and senior respected members of the profession and are appointed annually by the Board. A

committee member's tenure is generally five years. Member representation is from all areas of practice and a cross-section of firms (both consulting and company).

Complaints may be received from members or the public. Each complaint or information about a member's work is considered by the committee to determine whether or not there is *prima facie* evidence to support an investigation. In the event there is insufficient *prima facie* evidence, the complaint is dismissed and the complainant is so advised. However, if there is sufficient *prima facie* evidence, the complaint is accepted and the respondent is informed that a complaint has been lodged against him or her and that an investigation team has been or will be appointed to investigate the complaint. The complainant is also informed and will be kept apprised of the investigation's progress provided the complainant has signed a confidentiality agreement. The investigatory stage of the process is entirely confidential to protect the professional and personal reputation of the respondent.

An investigation team generally consists of three Fellows of the Institute. They are unpaid volunteers and normally do not have any experience in the conduct of investigations. The investigation team, once appointed, is briefed by legal counsel on the basic steps of an investigation in order to ensure that the evidence gathered can be used by the committee to determine whether charges are appropriate, and in the event that charges are filed against the respondent, that evidence may be used in a disciplinary tribunal hearing.

Once the investigation team has completed gathering evidence, a written report is prepared with the assistance of legal counsel. The report is submitted to the committee, and subject to its satisfaction that the report fairly presents the evidence and is complete, the report is submitted to the respondent for his or her review and possible comment. Once the respondent has submitted comments, or the time allowed to submit comments has elapsed, the report is considered by the committee. The committee has the following options:

- Dismiss the complaint;
- File a charge and proceed with private admonishment proceedings;
- File a charge and make a recommendation of sanction to the respondent; or
- File a charge and refer it to a disciplinary tribunal.

The respondent may be represented or assisted by legal counsel throughout the entire process at his or her expense.

A disciplinary tribunal consists of three members, two of whom shall be Fellows of the Institute. The third member is a retired judge who is also the chairperson of the tribunal. The prosecution (the committee) and the defence (the respondent) are generally represented by legal counsel, and the hearing is conducted in a formal manner with witnesses being sworn and evidence entered into the hearing's proceedings. After a given timeline, the tribunal will hand down a decision on the merits of the case, and in the event that the respondent is found guilty of at least one charge, a further hearing to determine sanctions and costs will take place.

A disciplinary tribunal has a range of sanctions that it may impose, including expulsion, suspension, a reprimand and/or a fine.

The respondent has the right to appeal the decision of a disciplinary tribunal. The appeal tribunal shall consist of three members, two of whom are Fellows of the Institute. The third member shall be a retired judge and shall be the chairperson of the appeal tribunal.

Throughout the disciplinary process, great care is taken to ensure that no member involved has a personal conflict of interest. If a member of an investigation team, the committee or a tribunal has a conflict of interest by virtue of employment or personal relationship, that person is excluded from any deliberations about the case.

In Canada, there have been 88 complaints made and completed since 1992 (as well as another 13 current cases that might lead to disciplinary action). Eighteen of those complaints resulted in sanctions ranging from private admonishment to permanent expulsion from the CIA.

The secretary of the committee makes a semi-annual report to all members. The report includes the number and nature of complaints, the number and nature of charges filed, the number of private admonishments issued and notices of admissions of guilt and acceptances of sanctions, which have been finalized since the last report. In addition, for each case that is completed that involves a public sanction, the secretary shall ensure that a notice is prepared to members. The notice shall include the name of the member, his or her principal address, the practice area, the charge and the sanction.

The Regulatory Framework

The regulatory framework has been extensively addressed under separate cover in the CIA's response to the Morris Review's published consultation document and will not be addressed in this reply.

Demand for Actuarial Services

The statistics presented below represent the CIA as at 1 August 2004

How many actuaries (qualified and trainees) are employed in the country?

Fellows	1923
Associates	841
TOTAL -	2764

In which areas of business are actuaries (in Canada) employed and how many in each?

	Fellows	Associates
Life insurance	817	402
P&C insurance	177	36

Pension	745	318	
Actuarial Evidence	30	2	
Non-traditional	99	45	
Non-actuarial	55	38	
TOTAL -	1923	841	2764

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

	Fellows	Associates	
Insurance company	796	399	
Consulting firm	867	317	
Other	260	125	
TOTAL -	1923	841	2764

How many companies employ actuaries in Canada?

Fellows and Associates combined (2764) are employed by approximately 469 companies in Canada.

Recruiting of Actuarial Students

The CIA is a cosponsor of both the SOA and CAS actuarial examinations. Both the SOA and the CAS actively promote the actuarial profession at the high school and the university levels. Canada has about 10 universities offering undergraduate degrees in actuarial science or actuarial mathematics. The balance of the training is generally done by self-study. Students who graduate from the actuarial science programs generally have completed several of either the SOA or CAS examinations by the time they have graduated. The competition among faculties and universities is keen for “the best and brightest” students.

The CIA does not directly recruit students into actuarial programs. However, the CIA offers information about the actuarial profession, universities that offer actuarial programs and employment opportunities for those interested in the actuarial profession. This information is available through the CIA Secretariat and via its website http://www.actuaries.ca/education_careers/index_e.html

Firms that employ actuarial students or individuals who may have an aptitude for and an interest in actuarial work also have a major role. The firms provide the environment, time and resources for actuarial students to write their examinations that will lead them to Fellowship.