



The Actuarial Profession

making financial sense of the future

AN INTRODUCTION TO THE UK ACTUARIAL PROFESSION

**Prepared for Sir Derek Morris
and his review team**

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CONTENTS

<i>Section</i>	<i>Page</i>
1 THE ACTUARIAL PROFESSION AT A GLANCE	2
PART I: THE WORK THAT ACTUARIES DO	
2 LIFE ASSURANCE	4
3 PENSIONS	6
4 GENERAL INSURANCE	8
5 INVESTMENT	9
6 OTHER	9
PART II: THE NATURE AND THE ROLE OF THE FACULTY AND THE INSTITUTE	
7 REGULATION	11
8 EDUCATION	13
9 CO-OPERATION	15
10 INNOVATION	16
11 PROMOTION AND EXTERNAL RELATIONS	17
12 COMMUNITY AND COMPANIONSHIP	18
13 GOVERNANCE AND INFRASTRUCTURE	19
APPENDICES	
A KEY PERSONNEL	20
B DIAGRAM OF THE PROFESSION'S GOVERNANCE STRUCTURE	21
C DIAGRAM OF THE PROFESSION'S BOARD STRUCTURE	22
D ORGANISATION CHART OF THE PROFESSION'S EXECUTIVE (STAFF)	23

1 THE ACTUARIAL PROFESSION AT A GLANCE

The work that actuaries do

Actuaries are trained to apply mathematics, economics and finance to the management of assets and liabilities, most often where long term planning is a critical factor.

The work for which actuaries are most noted is the measurement and management of liabilities in *life assurance*, *pensions* and *general insurance*. These are the three areas where most actuaries work – either as employees or as consultants – and the areas in which there are roles reserved to actuaries by statute or regulation. These are also the areas in which the quantitative work done by UK actuaries has rarely, if ever, faced competition from others.

The relationship between assets and liabilities – the need for capital and whether it is being invested appropriately to the liabilities taken on – is an integral part of the actuary's work. Although this aspect of financial management is not reserved to actuaries, very few people outside the profession compete with actuaries in this area, so far as the UK is concerned. Actuaries also work as investment managers, analysts and advisers, competing with – and significantly outnumbered by – individuals from other disciplines.

There are some 7,000 qualified actuaries (Fellows) of the Faculty and Institute, approximately 4,500 of whom are practising within the UK, 1,100 in roles reserved to actuaries by statute or regulation. An approximate split of the UK practising members across the various areas of work is as follows:

• Pensions 40%	• Life assurance 30%	• General Insurance 10%
• Investment 7½%	• Other 7½%	• Occupation unknown 5%

The Faculty and the Institute of Actuaries

The Institute of Actuaries and the Faculty of Actuaries in Scotland are the two professional bodies for UK actuaries. The Faculty and Institute work closely together as *The Actuarial Profession* in the UK, with a common code of ethical conduct and technical standards, a shared education system and a substantial element of joint expenses.

Like most UK professional bodies, The Actuarial Profession has the twin roles of *representing* members to the outside world and *regulating* members for the benefit of the outside world. These twin goals can be amplified as:

- *regulation* of members both in terms of an ethical code and technical standards
- *education* of new entrants who wish to become actuaries and *continuing professional development* of existing actuaries
- *cooperation* with government, business, regulators and other professions etc
- *innovation*, through research and debate, to expand the horizons of actuarial knowledge
- *promotion* of the work of actuaries in general (but not of individuals or firms).

The profession has a strong tradition of seeking to foster *community and companionship* amongst its members, locally and internationally. There is also close co-operation between actuarial societies around the world. Several international bodies have mutual recognition agreements with the UK profession enabling qualified actuaries from one country to obtain qualification in the other.

Historically, many overseas actuaries were trained and regulated by the Institute and the Faculty. Over time, local professional bodies have grown up in many of those territories, but the migration to local autonomy is not yet complete in some territories.

The profession has produced (and published on its web-site) a 5-year corporate plan.

PART I
The work that actuaries do

2 LIFE ASSURANCE

Overview

Approximately 1,400 UK practising actuaries (ie around 30%) work in life assurance, either as employees or directors of a life office or as advisers to life assurance companies (or as regulators within the FSA).

Of these 1,400 actuaries, some 120 have a practising certificate entitling them to carry out reserved work as Appointed Actuaries, responsible for reporting to the FSA on the solvency of the office, and a further 300 work in a reserving and valuation function, supporting the Appointed Actuary. New FSA rules, coming into force later this year, will replace the Appointed Actuary with a triple-actuary regime (see below).

The remaining 1,000 life assurance actuaries work on various aspects of life assurance, including pricing and product development, marketing, research, risk management and regulation.

The life assurance market

There are just over 200 companies licensed to carry on life assurance business in the UK. The largest ten companies account for 70% of the market. Some companies, most notably Royal & Sun Alliance and the Equitable, have ceased to write new business, but have pre-existing policies still in force (in "run off"). Life assurance companies held assets of some £900 billion as at year-end 2002.

There are also a number of friendly societies (mutual organisations regulated under a separate regime). At year-end 2001, there were 42 such societies licensed to write life assurance business with assets of some £15 billion.

Products sold by life assurers may be designed either to provide *protection* against some event or to serve as a *savings vehicle* (or both from the same product). The protection element of policies includes payment on death ("life insurance") or payment throughout life (an annuity). The scope of protection products has widened in the past 20 years to include critical illness and/or disability protection.

Savings vehicles fall into three categories:

- *with-profits*: where the return to the investor incorporates "bonuses" awarded by the company;
- *unit-linked*: where the return to the investor depends directly on the performance of the underlying investments; and
- *non-profit*: where the return is a monetary amount set at the outset of the policy.

The role of the Appointed Actuary and its successor(s)

Each life company is required by law to have an Appointed Actuary whose responsibility it is to monitor the financial condition (solvency) of the company and to advise the company's board accordingly. The Appointed Actuary is also responsible for reporting to the Financial Services Authority on the valuation of the company's liabilities, as required by the Insurance Companies Act 1982.

A particular responsibility of the Appointed Actuary, under the Act, has been to identify and monitor any risks run by the insurer which may impact on the firm's ability to meet its liabilities to policyholders. This role includes advising the board on the distribution of any surplus between different classes and generations of policyholders.

Later this year, the Appointed Actuary regime is to be discontinued. Under the new regime (currently being finalised by the FSA), there will be three actuarial roles:

- *The Actuarial Function Holder* will be responsible for the provision of actuarial advice to the company's board. This role will include advising the board on the calculation of policy liabilities.
- *The With-Profits Actuary* will be responsible for the provision of actuarial advice to the company's directors on their exercise of discretion in relation to the company's with-profits business (if any).
- *The Reviewing Actuary* will be an external actuary retained by the auditor to give an opinion on the company's calculation of its liabilities and various related matters.

The new regime reinforces the position that responsibility for decision-taking rests with the life company's directors (having taken actuarial advice), rather than being the responsibility of the Appointed Actuary. Importantly, the new regime also extends the scope of the auditor's opinion to include the actuarial assessment of the company's liabilities.

Current issues in life assurance

- *The challenge to traditional with-profits business:* Questions are being asked about the fundamental concept underlying with-profits business: is it acceptable in the 21st Century for savers to be sold products on which the return depends so heavily on the exercise of discretion by the company, with limited freedom for the investor to exit if the returns are not proving to be satisfactory?

This issue manifests itself in a variety of forms, for example the disquiet expressed over the shortfall in returns achieved, compared with the returns expected, on policies used to back mortgage borrowing (and the returns achieved by policyholders of Equitable Life compared with the returns policyholders were led to expect). In both cases the criticisms seem to hinge critically on expectations and the exercise of discretion, not on the performance of the savings products in absolute terms.

- *The impact of increasing longevity:* The expected remaining lifespan of purchasers of annuities is a critical factor when pricing annuity policies. Recent improvements in longevity, beyond those anticipated, especially amongst those of retirement age, has placed a great strain on insurers.
- *"Shortage of capital":* Many players in the life assurance industry perceive a shortage of capital. This simple statement hides a multitude of issues relating to the industry's ability to earn an economic rate of return. High distribution costs are damaging to profits, but may simply be a symptom of unattractive products (see first bullet above). Unanticipated longevity costs are another strain on profits (see second bullet).

The higher capital requirements imposed by regulators on life assurance products, compared with other forms of savings, is a long-standing issue. This may be exacerbated by the price cap on stakeholder pensions (and potentially on "Sandler " products). Although the caps do not apply to other products, there is a concern in the industry that providers may face mis-selling claims if sales are made of products which include expense loadings higher than the cap on protected products.

Key organisations (and contact names) in life assurance

John Tiner	Financial Services Authority	Chief Executive
David Strachan	" " " "	Director of Insurance Firms
Paul Sharma	" " " "	Head of Prudential Risk
Mary Francis	Association of British Insurers	Director General
Chris Kenny	" " " "	Head of Life and Pensions

3 PENSIONS

Overview

Approximately 1,800 UK practising actuaries (ie around 40%) work in pensions, of whom some 1,400 work as consultants to occupational pensions schemes (ie schemes established by companies and other employers) and 300 work for insurance companies.

Pensions actuaries provide a range of other advisory services, including benefit design, member communications and investment strategy. Just over half of the actuaries working in pensions (960) are Scheme Actuaries, responsible for carrying out various duties prescribed in legislation.

The role of the Scheme Actuary

For most pension schemes (“defined benefit schemes” – see below), the Scheme Actuary is responsible for several tasks set out in the Pensions Act 1995, including:

- triennial valuations of the assets and liabilities (reporting to the scheme’s trustees)
- various statutory certificates and/or reviews (eg certification of contribution rates and minimum funding levels and in relation to scheme mergers)
- calculating certain benefit terms (eg in relation to transfer values and early retirement).

Much of the Scheme Actuary’s advice must, by law, be made available to the scheme’s members. The Act also imposes a duty on the Scheme Actuary to “blow the whistle” (to the pensions regulator, Opra) if the actuary becomes aware of any failures in the administration of the scheme under relevant statutes.

The pensions industry

There are approximately 100,000 occupational pension schemes in the UK, owning in aggregate £700 billion of assets, but many of these schemes are very small. Just over 300 schemes represent 70% of the total (both in terms of membership numbers and assets).

Pension schemes fall into two categories: those in which the *benefit* is defined by some formula (usually by reference to salary and years of service) and those in which a defined *contribution* is paid into the scheme in respect of each member and the benefit is equal to the individual’s accumulated fund (most of which must, by law, be converted into a pension at retirement).

In the past few years, there has been a substantial switch from defined benefit schemes to defined contribution, with the result that, although the vast majority of the £700 billion of UK pension scheme assets still support defined benefit promises, most people taking up jobs in the UK private sector are now offered only defined contribution arrangements.

Current issues for pensions actuaries

It is well-known that the provision of pensions to current and future generations of UK citizens is exercising the minds of those in government and elsewhere (not least those within the actuarial profession). Many of the issues will already be known to Sir Derek Morris and his Treasury team and do not need summarising here. The following paragraphs touch briefly on some other issues which have an impact on actuaries and which Sir Derek and/or his team may not yet be so familiar with.

Historically, the critical role of the actuary to a defined benefit pension scheme has been to advise the trustees and/or the employer on the funding of the benefit promises and on the risks associated with any particular funding strategy. The Pensions Act 1995 gave the actuary a statutory role in terms of the requirement for an actuarial valuation, but it also imposed a specific minimum funding requirement (MFR), based on a prescribed method of calculation. This meant that, so far as the *statutory* valuation was concerned, the actuary’s role became largely mechanical, although schemes continued to need advice on funding strategies in excess of the statutory minimum.

The Pensions Bill currently going through Parliament will remove the MFR. Instead, pension scheme trustees will be required to agree with the employer a strategy for funding the pension commitments and for correcting any funding deficits, with the Scheme Actuary required to provide the trustees with a periodic valuation.

The Scheme Actuary's obligations to advise the trustees are not necessarily incompatible with the actuary providing advice also to the employing company. Historically, many trustees have been happy for the same actuary to be their adviser and the employer's. But with changing circumstances (including legislative changes), there is increasing scope for the actuary to be faced with a conflict of interest, which needs to be carefully monitored and discussed with clients. Where necessary, the actuary may be under a professional duty to resign from one or other (or both) appointments.

Many defined benefit pension schemes are currently in deficit. Part of the total deficit is a result of the reduction in interest rates in the last seven years (initially disguised by rising stock markets until late 1999). The rest is attributable to other reasons, including changes in the taxation of investments, improvements in longevity (beyond those anticipated) and benefit improvements imposed by government legislation. Many trustees and employers are faced with the dilemma between continuing to invest in equities in the hope of good returns, but at the risk of damaging either the members' security or the company's finances in the future if the risks are not rewarded, and reducing the risks by investing in bonds, with the result that company profits will suffer more immediately as past pension promises are supported.

Currently, there are only five British Government Stocks with maturity dates 15 or more years into the future. These stocks are much sought after by pension funds and other investors such as insurance companies providing annuities, so the availability of long-dated gilts is limited. The purchase of gilts to match the annuities arising on the winding up of a single large pension fund can visibly move the market price of gilts. It is a matter of some speculation as to what the impact would be on UK plc, and on the financial markets, if pension funds became net sellers of equity to the tune of several hundred billion pounds and increased their demand for government and corporate debt by the same amount.

Key organisations (and contact names) in pensions provision

Paul Gray	Department for Work and Pensions	Director
Hilary Reynolds	" " " " "	Director
Harriet Maunsell	Occupational Pensions Regulatory Authority	Chairman
Tony Hobman	" " " " "	Chief Executive
David Laverick	Pensions Ombudsman	
Adair Turner	Pensions Commissioner	
Terry Faulkner	National Association of Pension Funds	Chairman
Christine Farnish	" " " " " "	Chief Executive
Jane Samsworth	Occupational Pensions Advisory Service	Chairman
Malcolm McLean	" " " " " "	Chief Executive
Gordon Pollock	Association of Consulting Actuaries	Chairman
David Robertson	" " " " "	Secretary
Donald Duval	Society of Pension Consultants	Chairman
Roger Cobley	Pensions Management Institute	President
Sue Howlett	" " " " "	Secretary General
Tim Cox	Association of Pensions Lawyers	Chairman

4 GENERAL INSURANCE

Overview

Approximately 400 UK practising actuaries (ie around 10%) work in general insurance. These actuaries work either as employed actuaries (eg within insurance and reinsurance companies and Lloyd's syndicates) or as consultants.

Some 100 general insurance actuaries work predominantly in reserving, of which 50 are Syndicate Actuaries in relation to Lloyd's syndicates, where there is a requirement for an actuary to provide an opinion on the reserves. Most syndicate actuaries work for consultancies. The remaining 300 general insurance actuaries work in roles such as pricing, capital management, business planning and reinsurance purchase.

The role of the Syndicate Actuary

The role of the Syndicate Actuary under the Lloyd's Valuation of Liability Rules is to provide a Statement of Actuarial Opinion to Lloyd's syndicates, stating whether the actuary considers the reserves set by the Managing Agent are equal to (or exceed) the expected future cost of the relevant claims and expenses. A similar opinion is required by the US regulator on the syndicate's US Situs Trust Funds (Trust Funds relating to risks domiciled in the US).

The general insurance industry

Over 650 companies are authorised to write general insurance business in the UK. In addition, there are some 66 Lloyd's syndicates. The total net written premiums for UK business in 2002 was approximately £46 billion, of which £29 billion relates to the UK company market, £11.5 billion to Lloyd's and £5.2 billion to other categories (eg marine mutual companies, or "P&I clubs").

The general insurance (or "non-life") industry covers a very wide range of risks, ranging from consumer products such as motor and household to complex commercial property and liability risks. The market has a significant multinational element to it, with several risks being placed, at least in part, outside their home market, in order to spread the risk.

Current issues in general insurance

The Financial Services Authority is in the process of introducing a risk-based approach to establishing capital within general insurance companies. This a radical change from a regime in which capital requirements are based partly on the quantum of premiums written and partly on notified claims, creating the perverse incentive that some companies in difficulty can reduce the capital they need to hold by reducing the premiums they charge. For many companies, the new regime may be the first time that management has had to make a risk assessment across the whole spectrum of the company's operations.

It is in the nature of general insurance business that the industry faces major unforeseen perils from time to time. (One might say it is not unusual for the industry to be hit by unusual losses.) The scale of the 9/11 losses are exceptional (and still not finally determined). Terrorism continues to be a major threat. Other examples include environmental damage and personal injury claims, eg arising out of asbestos, which continue to emerge decades after the dangers of asbestos first manifested themselves. In the UK, the Courts Act 2003 may increase the size of damages awards paid by insurers for personal injury claims.

Key organisations (and contact names) in general assurance

Nick Prettejohn	The Corporation of Lloyd's	Chief Executive
Henry Johnson	" " "	Lloyd's Actuary
John Parker	Association of British Insurers	Head of General Insurance
Alan Spence	Financial Services Authority	Chief Actuary
Amanda Bowe	" " "	Head of General Insurance
Marie Louise-Rossi	International Underwriters' Association	Chief Executive
Lucy Courtenay	Chartered Insurance Institute	Qualifications Director

5 INVESTMENT

Overview

Approximately 300 UK practising actuaries work in institutional investment, principally within the fund management functions of life offices or as investment consultants. An increasing number of actuaries also work for fund management houses and investment banks in product design and risk management.

Historically, actuaries were central to the investment area, defining investment strategies for life assurance and pension funds from their outset. Until the 1960s, the actuarial qualification was the only one which included an examination of investment expertise. Over the last 40 years, however, the investment field has grown enormously both in size and complexity. The field is highly competitive with skills and experience from a variety of backgrounds being brought into play.

The main area in which actuaries hold a distinctive position is in the management of investment for institutional investors with long-term liabilities.

Areas noted for actuarial involvement

- Investment management and strategy, including asset-liability matching and derivative strategies
- Managing investment managers, including manager selection and performance measurement
- Development of products for institutional and retail investors
- Risk management, including quantitative control techniques
- Index construction (including, for example, the FT-Actuaries series).

Key organisations (and contact names) in investment

Lindsay Tomlinson	Investment Managers Association	Chairman
Richard Saunders	“ “ “ “	Chief Executive
Hector Sants	Financial Services Authority	Managing Director
Nicola Ralston	UK Society of Investment Professionals	Chairman
Chris Hitchen	National Association of Pension Funds	Investment Committee Chairman
Keith Jones	Association of British Insurers	Investment Committee Chairman
Paul Myners	[Various]	

6 OTHER

Other

Around 300 UK practising actuaries are recorded as pursuing activities outside the four areas described in the preceding sections of this paper (pensions, life assurance, general insurance and investment).

Some members work in areas which are similar to or neighbouring on the main activities. For example, there are actuaries working in healthcare and others working in banking, either as advisers or within healthcare and banking organisations. There are also actuaries known to be working in other financial fields, for example in risk management, PFI and capital projects. A number of actuaries work in management consultancy.

Undisclosed

Around 500 UK actuaries (some 10% of the total number of working age) have not supplied sufficient information for us to know for certain their area of work, but a review of the details we have on file enabled us to make reasonable assessments for the majority of them, leaving around 200 in the “occupation unknown” category.

PART II
The role of the Faculty and the Institute

7 REGULATION

Overview

The Actuarial Profession regulates its members as individuals. The regulatory power derives from the individual contracts that exist between each member and the professional body they have joined. The profession has no power to regulate firms or partnerships, except in relation to investment business and then only in the case of those firms which have chosen to be authorised by the profession, rather than by the FSA, under the Institute's powers as a Designated Professional Body.

The profession's regulation consists of codes or standards, covering both ethical and technical matters, which comprise the *Manual of Actuarial Practice*.

The Institute and Faculty each operate a disciplinary scheme. Starting from 1 January 2004, the two schemes effectively operate as one joint scheme. The range of permitted sanctions for misconduct includes fines, suspension, expulsion and remedial training or supervision.

Manual of Actuarial Practice (MAP)

MAP is located on the profession's web site (accessible from the Home page). It is in three sections:

- A The ethical code, known as the Professional Conduct Standards (PCS): This is a single document, setting out general ethical standards which apply to all actuaries (including students) across all areas of work and, where applicable, outside the working environment.
- B The 35 technical standards known as Guidance Notes (GNs), which apply to specific areas of actuarial work, eg the role of the Appointed Actuary (GN1): Despite the term "guidance note", almost half (16) are compulsory in the sense that failure to comply with the terms of the GN is prima facie grounds for a finding of misconduct (see paragraphs 4.1 and 4.2 of the PCS).
- C A formal "due process" for approving new or amended professional guidance (the collective term for GNs and the PCS).

MAP exists for the protection of the public, not for the protection of members of the profession (see paragraph 2.1.1 of the due process document in Section C). All its contents are common to both the Faculty and Institute. Final approval rests with the Faculty and Institute Management Committee, which is the senior committee by which the two professional bodies manage and co-ordinate their joint affairs.

Each new guidance note, or significant change to existing guidance, is exposed for consultation as an exposure draft (EXD). EXDs (or web links to the EXD) are sent to all members and to external bodies who are considered to have an interest in the material contained in the specific EXD.

The Disciplinary Schemes of the Faculty and Institute

Each of the professional bodies operates a disciplinary scheme and has done so since their foundation.

Since the beginning of 2004, the two schemes effectively operate as one: they have the same rules; the same individuals are appointed to manage the schemes and administer discipline; and cases may be heard jointly where it is appropriate to do so, eg where both an Institute member and a Faculty member are implicated in the same allegation.

Membership of the tribunals which impose final sanctions have, for many years, been separate from the Councils of each body although, until recently, Councils had powers to appoint some of the tribunal members (Institute only) and responsibility for suspending members where appropriate, pending a hearing of their case (both bodies).

With effect from 1 January 2004, the administration and management of the schemes and the selection of tribunal members have been removed from the control of Councils although, as a matter of law, the disciplinary process is still a function of the professional body.

Under each scheme, a disciplinary investigation is initiated whenever there is a complaint – whether by another actuary or by someone outside the profession – making specific allegations against an identified actuary. There is also the power (exercised by one of the Honorary Secretaries) for the Institute or Faculty to refer a matter for investigation, if it becomes aware of circumstances deserving such action and there has not been a complaint.

There have been 17 complaints referred for Tribunal hearings over the past 15 years, which led to 16 findings of misconduct. Of these, 11 have been within the past three years. Whether the increase in recent years is a reflection of declining behaviour or increasing vigilance is difficult to know, but it is notable that 8 of the cases in the past three years have been complaints made by the pensions regulator, Opra, relating to (alleged) breaches of regulations which are new since 1997 and which Opra actively monitors.

All findings of misconduct are serious, but the sanctions imposed vary according to the Tribunal's judgement of how serious the misconduct was. Of the 16 findings of misconduct over the past 15 years, four resulted in a fine in excess of £500, one in suspension of the member's practising certificate, and five in suspension from membership. In addition, one member's misconduct was found serious enough to have warranted expulsion, had he not already resigned. There are eight disciplinary investigations currently in process.

Investment business authorisation (Designated Professional Body)

Since December 2001, the Institute of Actuaries, along with a number of accounting and legal professional bodies, has been a Designated Professional Body (DPB) under the Financial Services and Markets Act 2000 (FSMA). The Act allows firms licensed by the Institute to take advantage of an exemption from the need for authorisation by the Financial Services Authority when providing investment services to clients, so long as the investment services are merely incidental to non-FSMA professional services.

The Faculty is not a DPB under the new regime, but Faculty Fellows who become Affiliate members of the Institute can take advantage of the Institute's DPB status.

Current developments in the regulation of actuaries

Three initiatives were under way prior to the announcement of the Morris Review:

- *Actuarial Standards Board:* A taskforce has presented a proposal to Councils to introduce an Actuarial Standards Board, containing a majority of independent members, to oversee the process of setting professional and technical guidance to actuaries. The main thrust of this proposal, on which further work has been commissioned, is to introduce the concept of independence into the profession's standard-setting procedures.
- *Revalidation of Professional Competence:* Currently, practising certificates are needed by Appointed Actuaries (life offices), Scheme Actuaries (pension schemes), and Syndicate Actuaries (Lloyd's). The profession is considering a proposal to extend the concept of practising certificates to cover all actuaries who give advice on actuarial matters. The proposal envisages that revalidation of the new practising certificates for non-statutory roles should take place every five years, with revalidation for statutory roles continuing to be required every year.
- *Peer Review:* The profession has decided to introduce peer review for some actuarial work. The initial plans for peer review in life assurance are being modified in the light of the FSA's forthcoming changes to the Appointed Actuary system for life assurance (see Section 2). An Exposure Draft on peer review in pensions work (EXD 52) was issued in February, setting out the initial phase of the introduction of peer review. The consultation period closed on 12 April. Lloyd's are not showing any enthusiasm for peer review of Syndicate Actuaries' work.

8 EDUCATION

Introduction

The Actuarial Profession is the qualifying body for actuaries in the UK. Qualification is achieved primarily by passing a set of exams, addressing the theory of actuarial techniques and their practical application in areas where actuarial skills are brought to bear (eg life assurance, pensions etc, as described elsewhere in this paper).

Currently there are 4,100 students of the Faculty and the Institute in the UK and about 3,100 students in some 80 other countries. [The UK Actuarial Profession is also the examining body for actuaries in Eire and South Africa and one of a choice of examining bodies for actuaries in a number of other countries around the world, including, for example, India.] Most entrants to The Actuarial Profession today have studied for a numeric degree at university before joining the profession. It is, however, possible to join with a good knowledge of mathematics to higher school leaving stage.

Once qualified, actuaries are expected to continue to study through a programme of Continuing Professional Development (CPD).

Qualification syllabus (as a Fellow)

The qualification syllabus is reviewed and revised frequently to ensure that it is kept up-to-date. A new syllabus begins with effect from April 2005, replacing the existing syllabus which came into effect from April 1999. The new syllabus for qualification as a Fellow of the Institute or Faculty is in four parts:

- *Core Technical*: Eight subjects, including economics, financial mathematics and financial reporting. In addition, all new students admitted after June 2004 must attend a business awareness module.
- *Core Applications*: Three subjects covering the application of actuarial concepts to solving practical problems, data modelling and communicating actuarial concepts to non-technical people.
- *Specialist Technical*: Students must take two subjects from a menu of six, including life assurance, general insurance, pensions and investment.
- *Specialist Application*: one problem-solving (UK-specific) paper on a subject chosen from the same menu.

There are two additional requirements before being admitted to the class of fully qualified actuaries (Fellows): applicants must have completed three years of practical actuarial work and (in the case of the Institute) be aged over 23 years. Within one year of completing the qualification process, all newly qualified actuaries (Institute and Faculty) must attend a two-day course in professional ethics.

Intermediate qualification (as an Associate)

The profession has an intermediate qualification of Associate (currently around 430 in number). The qualification entitles the holder to vote in (some, but not all) Institute or Faculty affairs; it does not convey any status so far as qualification for work is concerned.

Historically, Associateship has been awarded at different stages in the syllabus. Not all Associates go on to complete the exams for Fellowship, so the membership category of Associate contains individuals at various stages of the qualification syllabus. (With effect from 2005, Associateship will be awarded to members on completion of the Core Technical and Core Application subjects.)

Education

To ensure that actuarial tuition is available, the profession has contracted The Actuarial Education Company (ActEd), a subsidiary of BPP Professional Education, to provide tuition in all the subjects required for qualification as an actuary. (BPP is a company of high repute in the field of professional training.) The Faculty and Institute set ActEd's prices and monitor tuition quality.

Students whose undergraduate degree includes relevant courses in actuarial subjects can obtain exemptions from one or more exams within the first three stages listed above (ie exemption from any or all subjects, excluding the final Specialist Applications stage).

Post-qualification (CPD)

The Actuarial Profession promotes a culture of lifelong learning, under the label *Continuing Professional Development* (CPD). A minimum level of CPD is compulsory (and monitored) for actuaries who hold a practising certificate entitling them to act as an Appointed Actuary (life assurance), Scheme Actuary (pensions) or Syndicate Actuary (general insurance at Lloyd's). The minimum level is 15 hours per year of "Formal CPD" plus one hour per week (on average) of "Informal CPD."

- *Formal CPD* is participation in courses, professional meetings or other formal events of equivalent standing.
- *Informal CPD* is any other activity of professional development such as reading, training, teaching etc, not necessarily of a technical nature.

The Actuarial Profession offers a range of learning opportunities for actuaries, including:

- Conference programmes in each of the main practice areas (life assurance, pensions etc)
- Seminars and workshops on current topics and focused short courses on specific technical topics, eg life office taxation and pension scheme wind-ups
- Additional training courses, sometimes with (voluntary) examinations, in new subject areas which have yet to be added to the syllabus and/or subjects which have been added recently and which older actuaries may wish to study
- Monthly meetings at which topics of current interest are debated following the presentation of a formal academic paper (referred to in the profession as "sessional meetings")
- Meetings for younger members (pre- and post-qualification) at local actuarial societies throughout the UK addressing topics of both a technical and general professional nature, including a two-day Younger Members Convention held annually.

Current developments in the education of actuaries

As part of the proposal to extend the practising certificate regime to all practising actuaries (see Section 7), it is envisaged that actuaries will also have to pass an exam in UK legislation and regulation (and professional regulation) relevant to their area(s) of practice. Failure to pass the relevant exam would result in the practising certificate not being renewed.

9 CO-OPERATION

Overview

As the body which both regulates and represents actuaries, The Actuarial Profession has an ongoing commitment to co-operate with many other bodies having public and/or private functions to carry out. Such bodies include government and regulators; the business community (particularly, but not exclusively in financial services); other professions; press; and consumer bodies.

Sections 2-5 of this paper each conclude with a list of key organisations in each of the four main areas of actuarial practice. The profession maintains links with all of the organisations mentioned and with many others.

Government and regulators

The Profession has ongoing dialogue with government departments and regulators, including the Treasury, the Department for Work and Pensions and the Occupational Pensions Regulatory Authority. The current Pensions Bill (introducing the Pensions Protection Fund amongst other things) has been a major focus of recent liaison, beginning with the DWP seeking the profession's input and advice on various aspects during the policy formulation stage. The previous major legislation in this area (the Pensions Act 1995, introducing the Minimum Funding Requirement – see Section 3) also followed extensive consultation.

The profession's open letter to the DWP, published on 22 March and questioning the structure of the PPF, indicates that, whilst the profession co-operates with government, it does not always concur with government's policy decisions.

The profession is also in regular discussion with the Financial Services Authority, most recently over the role of actuaries in life assurance governance. The transition from the current Appointed Actuary system to the triple-actuary regime (see Section 2) followed extensive discussions.

The business community and consumer bodies

In insurance and pensions, contact with the business community is typically through the Association of British Insurers and the National Association of Pension Funds.

The profession also seeks to work with consumer bodies such as the National Consumer Council and the Consumers Association.

Other professions

The Actuarial Profession has traditionally had close links with the accountancy profession. With the change of responsibility for accounting standards from the professional bodies to the independent Accounting Standards Board, our links have tended to follow the ASB (and, more recently, the International Accounting Standards Board with the move to international accounting standards), rather than the professional bodies. The profession makes regular contributions to the development of accounting standards in our areas of expertise, contributing responses to public consultation documents and providing advice behind the scenes.

Communicating our views

The Actuarial Profession contributes to public debate on matters where actuarial input is thought to be beneficial. A written submission was recently made to the Treasury Select Committee's current enquiry into long term savings. The Presidents of the Institute and the Faculty have been asked to give oral evidence to the Committee later this month.

See also Section 11 of this paper (Promotion and External Relations).

10 INNOVATION

Overview

The Actuarial Profession places an emphasis on the need to for research in all its areas of work. Results are disseminated (to members and to the wider public) in various ways:

- Presentation at one of the monthly sessional meetings or in lectures at a conference
- Publication in the British Actuarial Journal (BAJ), a learned journal published by the Profession five times per year and sent to all members
- Publication in other relevant journals, eg international actuarial journals and/or the profession's web site
- Liaison with appropriate bodies such as Government departments, public agencies and other professions.

Research activity

One of the most well-known areas of actuarial research is the work of the Continuous Mortality Investigation Bureau (CMIB) into longevity. CMIB collects data from life insurance companies and pension schemes to help produce estimate of the probability of survival from year to year (from which are derived "life expectancy" figures which feature often in the press and other publications).

The profession takes a particular interest in carrying out research into areas of social policy which are connected with or adjacent to fields of actuarial activity. Current issues under review by the profession's Social Policy Board include:

- State pensions and the ageing population
- Consumers' understanding of risk in investment
- Genetics and insurance
- Equity release schemes (in housing)

Other areas of current research within the profession as a whole include:

- The future of with-profits business
- Future demand for equities and bonds
- The relationship between actuaries and auditors
- Fair value reporting
- Evidence-based underwriting
- Critical illness insurance

Management and finance of research

Most research is carried out by practising actuaries in their own (or their employer's) time. The work of the CMIB is a major exception, being funded by the insurance companies themselves. The profession also has a research grants budget – currently about £120,000 pa – to assist with the funding of research carried out by non-members or by members who are not able to finance the research themselves. A Research Committee co-ordinates research across the profession, identifying areas where research is needed and encouraging volunteers.

The profession collaborates with the Engineering and Physical Sciences Research Council (EPSRC), which manages government funding for university research in the financial mathematics area, conducting research within the EPSRC's Quantitative Finance Programme in Mathematics.

11 PROMOTION AND EXTERNAL RELATIONS

Overview

The profession considers it part of its duty (stemming from the Royal Charters) to promote the status of the profession of actuaries and the standing of those who are engaged in it. This promotional activity is a general one relating to actuaries as a group. The profession does not seek to promote firms of actuaries (nor individual actuaries) in relation to their commercial work. The Association of Consulting Actuaries is the representative body for the commercial activities of actuaries engaged in consultancy and their actuarial firms.

Promotional activity includes:

- Explaining the nature and role of actuaries to those who might use actuarial services and to those who might become (or advise others to become) actuaries.
- Communicating the views of The Actuarial Profession to industry, government, press etc, so that those who make decisions on issues of public policy (and those who influence the policy-makers) are aware of any actuarial considerations that are relevant to the topics under discussion.

Explaining our role

Much of the evidence from surveys and from anecdotal information indicates that the role of the actuary is not well understood. This has negative impacts in that organisations that might benefit from actuarial advice or input may not always be aware of actuaries as a potential source of help and individuals with the capacity to become actuaries might not always be aware of the career.

The profession seeks to remedy this by maintaining a dialogue with press, government, industry etc about the work that actuaries do and with schools and universities about the career opportunities.

Communicating our views

Current key publications include:

- *The Agenda*: a review of current issues in savings, insurance and other areas relating to actuaries
- *Who are the Actuaries?* a folder containing information sheets on all main areas of actuarial practice
- *Financial Sense*: a publication explaining the functional skills of actuaries in terms of Risk, Design, Security and Planning (“making financial sense of the future”)
- *Future decisions - a career that can make a difference*: a career brochure aimed at undergraduates.

As described in Section 9 (Co-operation), The Actuarial Profession contributes to public debate on matters where actuarial input is thought to be beneficial.

12 COMMUNITY AND COMPANIONSHIP

Historically, the profession has placed great emphasis on the community and companionship aspects of its role. In his evidence to the Treasury Select Committee, Lord Penrose likened the actuarial profession to others in this respect (mentioning his own profession of advocates in Scotland as an example). He described the community aspects as both a strength and a weakness.

At the present time, our community and companionship is evidenced by:

- The regular sessional meetings, where papers are presented to the Institute and/or the Faculty (described already in Sections 8 and 9) and also at regional societies
- Conferences and seminars held throughout the year (again, see Sections 8 and 9)
- Seminars and networking events held for members of special interest groups (usually where the group is in a developing area for actuaries and the group is small in number, eg banking or healthcare)
- Meetings and conventions of the International Actuarial Association, which is the association of recognised actuarial bodies around the world
- Written communication from the professional bodies to members (the bi-monthly Despatch) and between members (for example, *The Actuary*, a monthly journal for members of the profession)
- A variety of social activities, ranging from quiz nights and five-a-side football (generally for younger members) to dining clubs (generally older members).

13 GOVERNANCE AND INFRASTRUCTURE

Overview

The Faculty and Institute are separate professional bodies, each incorporated by Royal Charter. Each body has its own Council and a set of Rules and/or Bye Laws, which are (loosely) the equivalent of the Board of Directors and the Memorandum and Articles of a company incorporated under the Companies Acts. In recent years, the two bodies have worked increasingly closely together as *The Actuarial Profession* in the UK, with a common code of ethical conduct and technical standards, a shared education system and a substantial element of joint expenses, reflecting joint working across a range of activities.

Faculty and Institute Management Committee (FIMC) and the Boards

The two Councils have delegated the day-to-day management of their joint affairs to the Faculty and Institute Management Committee. Councils scrutinise policies, policy changes and budgets proposed by the FIMC in support of the strategy; FIMC is responsible for implementation. Councils retain responsibility for the separate activities, finances and membership matters.

Beneath FIMC in the hierarchy are a series of boards and committees, eg Pensions Board and Life Board which carry on the work in the various practice areas, and others such as the Professional Affairs Board and Finance & General Purposes Board which are responsible for various aspects of the management of the profession (as distinct from its areas of practice).

The current membership of FIMC is 19 individuals, 12 of whom are the Presidents, CEO and Board Chairmen, two are the immediate past-Presidents (or incoming Presidents) and the remaining five are members chosen by each of the two Councils to sit on FIMC without any portfolio responsibility (quasi-non-executives). The two Presidents chair FIMC in alternate years.

A chart of the decisions delegated by Councils to FIMC is attached at Appendix B and a chart of the boards and main committees is attached at Appendix C.

Election of Council members and Presidents

The Institute conducts elections to the Council every year when five of the members retire by rotation. (With 30 Council members and 5 retiring each year, members serve an average of six years each.) Retiring Council members are not eligible for immediate re-election, but other than that, any Fellow may stand for election. Institute Council members elect the incoming President (in practice for two years), a few months before the incumbent President retires.

The Faculty also conducts elections to the Council every year. Any member may stand for election to the Council. Although all Council members are required to submit themselves for annual re-election if they wish to continue, the rotation formula means that, in practice, four members stand down each year. The Faculty President is elected by the members attending the Ordinary (annual) General Meeting. Traditionally, the members elect the Presidential candidate nominated by the Faculty Council (also, in practice, for two years).

Finances

The combined income of the Institute and Faculty is approximately £11m pa. Generally, the aim has been to ensure that the finances break even, with sufficient reserves maintained for each body. The figures below are to 28 February 2003. Accounts for 2004 will be available in May.

Income	£000	Expenditure	£000
Subscriptions and Practising Certificate Income	5,290	Staff salaries and honoraria	4,430
Exam fees etc	2,560	Premises	815
Events and CPD Income	2,230	Events and lettings	1,202
Other	1,320	Other	4,423
Total	11,400	Total	10,870

Appendix A

KEY PERSONNEL (a Directory with full contact details will be sent separately)

Leadership and management of the profession

Jeremy Goford	President of the Institute of Actuaries
Tom Ross	President of the Faculty of Actuaries
Michael Pomery	President-Elect of the Institute of Actuaries
Harvie Brown	Vice-President of the Faculty of Actuaries
Caroline Instance	Chief Executive of The Actuarial Profession and Secretary General of the Institute of Actuaries
Richard Maconachie	Secretary of the Faculty of Actuaries

Life Assurance

John Hylands	Chairman, Life Board	
Nigel Masters	Deputy Chairman	" "
Jeremy Goford	President of the Institute of Actuaries	(also listed under "leadership")
Maria Singleton	Secretary, Life Board	

Pensions

Ronald Bowie	Chairman, Pensions Board	
Wendy Beaver	Deputy Chairman	" "
Tom Ross	President of the Faculty of Actuaries	(also listed under "leadership")
Harvie Brown	Vice President	" " "
Michael Pomery	President-Elect Institute of Actuaries	(also listed under "leadership")
Mervyn Bryn-Jones	Secretary, Pensions Board	

General Insurance

David Hindley	Chairman, General Insurance Board	
Terry Clarke	Deputy Chairman	" " "
Peter Stirling	Secretary	" " "

Investment

Sally Bridgeland	Chairman, Finance & Investment Board	
Gordon Bagot	Deputy Chairman	" " "
Mark Symons	Secretary	" " "

Regulation

Graham Clay	Chairman, Professional Affairs Board	
Paul Greenwood	Deputy Chairman	" " "
Michael Scott	Secretary	" " "
John Hayes	Chairman, Disciplinary Board (not a member of the profession or staff)	
Wendy Cogger	Secretary	" " "
John Hill	Chairman, DPB Committee	
Nicola Will	Secretary	" " "

Education and Innovation

Nick Dumbreck	Chairman, Education & Continuous Professional Development Board	
David Hare	Deputy Chairman	" " " " " "
Lis Goodwin	Chief Education Officer	
Peter Nowell	Chairman, Continuous Mortality Investigation Bureau	

Finance

Caroline Instance	Chief Executive	(also listed under "leadership")
Bill Robertson	Chairman, Finance & General Purposes Board and Faculty Treasurer	
Seamus Creedon	Treasurer, Institute of Actuaries	
Pauline Hargraves	Head of Finance	

Governance Structure

Faculty

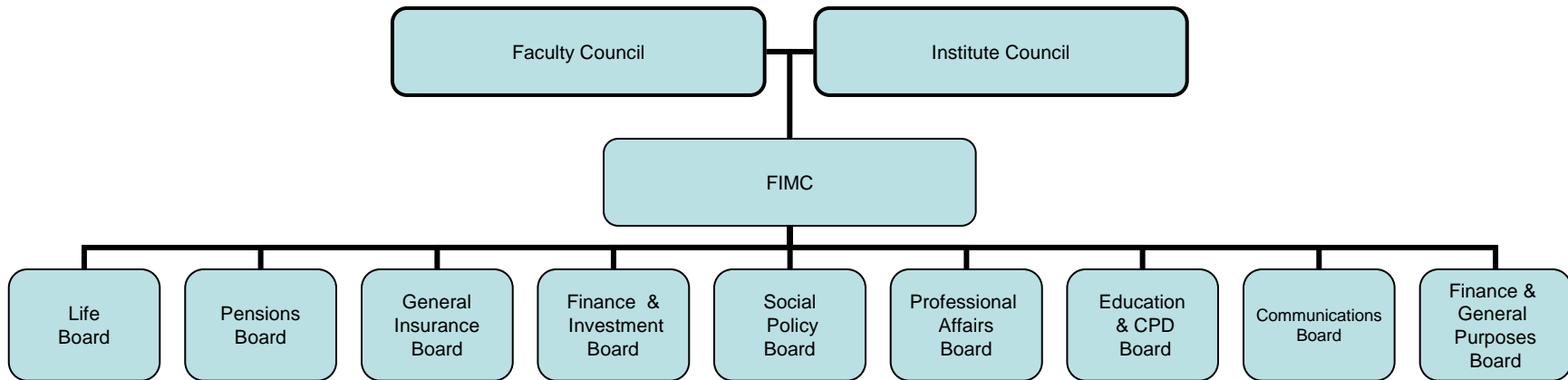
Institute

<p>Members decide</p> <ul style="list-style-type: none"> ➤ Constitutional matters ➤ Selection of Council members 	<p>Council decides</p> <ul style="list-style-type: none"> ➤ Corporate strategy ➤ New policy ➤ Selection of President ➤ Appointment of Council members to Boards and Committees ➤ Honorary Officers ➤ Subscription levels ➤ Faculty-only budget ➤ Contribution to joint pool ➤ Faculty-only matters <p><i>Delegates management to FIMC</i></p>	<p>Council decides</p> <ul style="list-style-type: none"> ➤ Corporate strategy ➤ New policy ➤ Selection of President ➤ Appointment of Council members to Boards and Committees ➤ Honorary Officers ➤ Subscription levels ➤ Institute-only budget ➤ Contribution to joint pool ➤ Institute-only matters <p><i>Delegates management to FIMC</i></p>	<p>Members decide</p> <ul style="list-style-type: none"> ➤ Constitutional matters ➤ Selection of Council members
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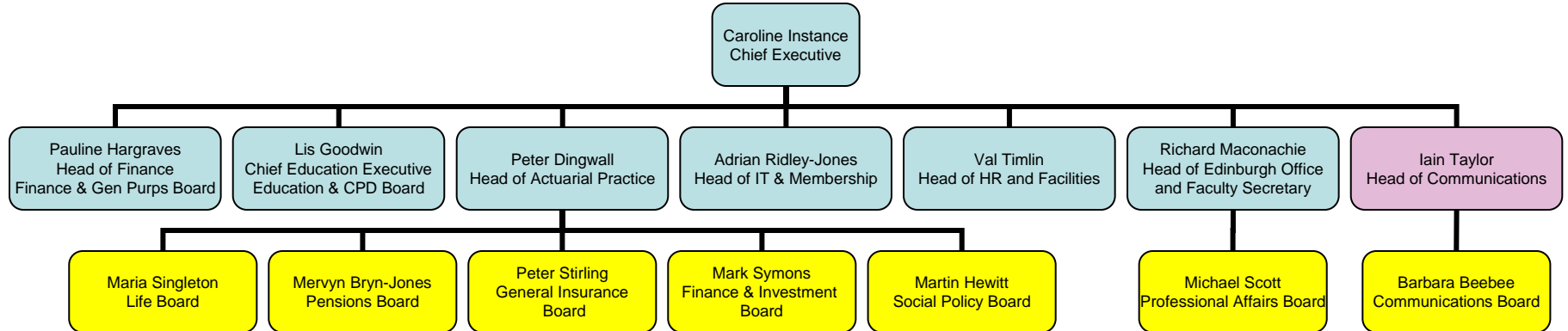
<p style="text-align: center;">FIMC decides</p> <ul style="list-style-type: none"> ➤ Policy on contentious issues in current work ➤ Business plans of Boards ➤ Forming or standing down of Boards or Committees ➤ Overseas CMI Bureau ➤ Approval of Guidance Notes ➤ Joint affairs budget ➤ Delegates management of budget and staff to Chief Executive


<p style="text-align: center;">Boards decide</p> <ul style="list-style-type: none"> ➤ Delivery of Board business plan ➤ Consultation responses

Board Structure



Senior Members of the Executive



 Denotes member of the Chief Executive's Group