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Report from the United Kingdom

Appointed Actuaries

by Alan Twigg

Regulatory changes continue to grab the headline for actuaries in the United Kingdom. The regulator here, the Financial Services Authority (FSA), is proposing to abolish the appointed actuary system sometime during 2004. This system, whereby one actuary takes personal responsibility for certifying the liabilities of a life insurer, was pioneered in the United Kingdom during the 1970s and followed a spate of insurer insolvencies. Since that time, the concept has been exported to a number of other territories.

The FSA's main reason for making the change is that it thinks boards of directors have been placing over-reliance on the individual appointed actuary and have not themselves, come to a view on the reasonableness of the assessment of regulatory liabilities. Under the proposals, boards of directors would carry responsibility for the liabilities but would be required to seek actuarial advice to assist them. This advice would be provided from a new role—"the head of the actuarial function." This will probably be the current appointed actuary, so in practice there may be little change in the day-to-day work of the individual. Nevertheless, the actuarial professions in the United Kingdom have expressed strong reservations on the change to the regulator. They perceive that the interests of policyholders will be potentially weakened by this change and are not convinced that boards of directors will be sufficiently knowledgeable to discharge their enhanced responsibilities adequately.

The FSA has agreed to a short postponement of the change, but at the time of writing seemed determined to push the changes through. Less contentiously, they are also seeking to include assessment of the actuarial liabilities within the scope of audit for the first time at year-end 2004.

Alan Twigg, ASA, is at KPMG, LLP in London. He can be reached at alan.twigg@kpmg.co.uk.

Participating Business

In parallel with the changes above, the FSA is also making changes to the governance of participating (known as with-profits in the United Kingdom) business. Life insurers writing this class have considerable discretion over the allocation of the dividends (known locally as bonuses) and the FSA is concerned as to how insurers have managed any potential conflicts of interest between policyholders and shareholders. To fill this gap, insurers will, in the spring of 2004, have to publish a document titled "Principles and Practices of Financial Management" (PPFM). Included in this document will be:

- The insurer's approach to setting annual and final bonus rates (the latter are a strong feature of U.K.-participating business, at least until recent stock market falls).

- Its investment strategy for participating business.

- Its approach to achieving balance between the interests of policyholders and shareholders.

Also included in the proposals is the appointment by each insurer of a "with-profits actuary." This individual who may be, but is not required to be, the same person as the head of actuarial function above, will be required to prepare a report to policyholders on the insurers compliance with the contents of the PPFM.

The above changes, when combined with pressures caused by the recent bear market, may accelerate an existing trend whereby several leading U.K. insurers have withdrawn from the participating sector of the market.□