

Institute and Faculty of Actuaries, **Regulatory Board**

Subject	Practising Certificate requirements for the role of Reviewing Actuary
Meeting date	17 May 2023
Previous Steer/Approval	<p>May 2018 Board approved the removal of the requirement for an RA of a Life firm to hold a PC</p> <p>July 2018 Feedback from the FRC and Life Board considered by the Board. The Board approved the removal of the requirement for an RA of a Life firm to hold a PC, subject to a member consultation and FRC comments</p> <p>March 2019 Board approved the draft consultation document, subject to comments from the FRC and PRA</p> <p>May 2019 Board agreed to uphold its decision to remove the RA PC, but to defer implementation of the decision to reflect further on the FRC's position</p> <p>April 2022 Board asked the Executive to consider a separate RA PC under the new PC Scheme</p> <p>June 2022 Board agreed that the matter should be brought back for discussion once the new PC Scheme is in effect</p>
International issues considered?	No – relates only to UK PC scheme.
Author	Stephanie Snowden, Senior Regulatory Manager
Reviewer	Ben Kemp, General Counsel
Purpose	Approval

A: Executive summary

1. This paper seeks **approval** from the Board in relation to the Practising Certificate (PC) requirements for Members carrying out the role of Reviewing Actuary (RA).
2. A summary of the background to the issue is contained within this paper. The full background and previous Board decisions in relation to the requirements can be found within paper 6 of the July 2022 Regulatory Board meeting (please contact rbsecretary@actuaries.org.uk for a copy of the paper, if required).

B: Introduction

3. As members of the Board are aware, the IFoA currently has a requirement for a PC to be held where a member takes on the role of RA to a Life insurer. In broad terms, the RA provides independent actuarial advice to the auditor of an insurer.

4. The IFoA does not currently have a specific RA PC and, instead, the current requirement set out in APS L1 is that a Member looking to take on the role of RA must hold either a Chief Actuary (Life) PC or a Chief Actuary (Life, Non-Directive) PC.
5. There are no such PC requirements in place in relation to non-Life insurance companies.

C: Background

6. As part of the implementation of Solvency II, the PRA Rules relating to the published audit opinion on the regulatory returns for a life company (which were the basis for the requirement for a PC to be held by a Reviewing Actuary) were amended to no longer make explicit reference to advice having been sought from a suitably qualified actuary.
7. Instead, the reference is made in a Supervisory Statement which sets out the PRA's expectations of insurers and audit firms, but which does not have mandatory status. The relevant extract from the Supervisory Statement (SS11/16) is set out below:

Use of actuaries

4.3 ISAs (UK) specify that the auditor shall determine whether, to obtain sufficient appropriate audit evidence, he or she should use the work of an auditor's expert, and should evaluate the expert's competence, capabilities and objectivity. As a minimum, for firms that write life insurance business, the PRA expects that auditors, in undertaking the external audit, will obtain and pay due regard to the work of a suitably qualified actuary who is independent of the firm.

8. During the latter part of 2017, a sub-group ("the Group") of the Practising Certificates Committee reviewed the PC Scheme and developed criteria (**Appendix 1**) that captured the key aspects of an actuarial role that would make it one which ought to be within the scope of the PC regime.
9. The Group considered existing PCs against the criteria and concluded that, as the Reviewing Actuary role was no longer a statutory/regulatory role and not an ongoing role, the role did not meet the criteria for a PC. The Group therefore made a recommendation to the Board that the RA PC requirement should be removed.
10. The Board approved the recommendation to remove the PC requirements for RAs, however the FRC objected to the proposals and the Board agreed to consider the FRC comments further.
11. The Board has since discussed the matter on a number of occasions, most recently at its July 2022 meeting, where a number of options were set out for the Board to consider.
12. The Board did not select a preferred approach at that meeting, but asked for the matter to be brought back for consideration once the new PC Scheme had been implemented and further work to review the requirements was carried out.

D: Feedback from Practising Certificates Committee (PCC) and PC applicants

13. Prior to the new PC Scheme coming into effect, the Practising Certificates Committee (PCC) raised concerns in relation to the PC requirements for RAs. The PCC was concerned that, as the RA role is narrower than the CA role, it could be problematic for some members to demonstrate the full set of competencies required for the CA PC, particularly those who are in the early stages of their career.

14. The PCC was concerned that this could result in applications being declined from members who are competent to carry out the RA role but are not able to demonstrate the full set of competencies for a CA PC. This therefore might lead to competent RAs not being able to carry out their role.
15. Feedback has also been received from members in such roles raising concerns that it may be more difficult for those who solely carry out this type of work to demonstrate the wider technical skills required for a Chief Actuary PC. The Competency Framework for a Chief Actuary PC is included at **Appendix 2** for information.
16. The PCC has dealt with eight applications from Members who previously held a PC restricted to RA roles only. All eight of those applications have been approved for a full Chief Actuary PC, four of which required a phone call with the applicant to explore their competencies further before a decision was made.
17. One of those cases also went through an executive review process, as although there was a majority view to approve the application, conditions were being considered as part of that approval. The Head of Regulatory Policy and Review Actuary reviewed the case and concluded the application should be approved without conditions.
18. There has been one new application received under the new Scheme where it was felt that, despite receiving further written information and holding a discussion with the applicant, the information provided did not meet the competencies for a CA (Life) PC. It was, however, felt that the applicant had demonstrated that they were competent to act as an RA, which was the reason for the application. The Executive, along with the Chair of the Board, agreed that this was a suitable case for the PCC to apply its discretion in granting the PC '*to avoid an unfair outcome in relation to a PC application*' (section 22.4 of the PC Handbook). It was also agreed that the applicant should sign a formal undertaking, acknowledging the decision and that they would only use the PC for RA roles.
19. The PCC was content that this was an acceptable short-term solution for such cases, however a more permanent solution is required to avoid utilising such exceptional measures on a more frequent basis.

E: Feedback from Life and General Insurance (GI) Boards

20. Feedback was sought from the Life and GI Boards on the requirements to ensure views from the practice areas directly impacted are considered as part of the Boards decision.
21. Five responses were received from the Life Board in relation to the PC requirements for RAs, with the majority agreeing that the requirement should not be mandatory due to it no longer being required by statute.
22. The following observations were also made:
 - The requirement is inconsistent with the P&C industry, where no PC is required, but there is as much, if not more, expert judgement required in reviewing results;
 - It is only applicable for Solvency II, and therefore given the scope changes on audit of smaller firms, a PC is not required for all audits;

- It's not required for IFRS reporting, which has the same challenges as the scope of the Solvency II audit, again creating inconsistencies; and
 - The audit practice has specific requirements to consider the expertise of specialists used in the audit, which extends beyond Actuarial. Therefore, these are likely to sufficiently ensure the actuarial aspects are appropriately operated.
23. It was noted that, should the requirement be removed, careful consideration should be given to other provisions that could be put in place to protect the public interest from risks resulting from unqualified/inexperienced advice or judgement in audits, with some suggesting a voluntary PC may be suitable as an optional way of providing some evidence of competence.
24. No responses were received from the GI Board, however two Life Board members suggested that the approach should be consistent for both Life and Non-Life insurance on the basis that there are also significant risks to public interests arising from GI-related audit advice.

F: Discussion

25. The Executive has considered all of the information and feedback available and recommends that the Board;
- a) upholds its original decision to remove the requirement for an RA to hold a PC; or
 - b) introduces a separate RA PC with its own Competency Framework for Members carrying out the role of RA to a Life insurer. A draft Competency Framework for an RA PC has previously been shared with the Board and is included at **Appendix 3** for information.
26. When considering the options, the Board is asked to be cognisant of the information previously provided in relation to the status of the requirements for RAs and the criteria for introducing a PC, as summarised in section C of this paper.
27. In particular, if the Board decides to introduce a separate RA PC, consideration should be given as to whether the specificity of the PRA Supervisory Statement, and the significance of the work being carried out, is seen as equivalent to a requirement prescribed in regulations by a statutory regulator.
28. It is also worth noting that, although the RA role is not ongoing, it is likely that a Member will act as an RA for the same firm on more than one occasion and not necessarily as a one off.
29. The Board has previously discussed extending any RA PC requirements to non-Life insurance. However, there is no regulatory definition and no expectation set out in PRA supervisory statements for non-Life RAs. It would therefore sit outside of the criteria for when a PC is required and defining the role could be problematic.
30. If the Board would like to consider this further, it is suggested that a question is included in the consultation paper to obtain views from the membership on this matter.

G: Next steps

31. Both recommendations will require a member consultation on the proposals, including changes to APS L1.
32. In addition, if the decision is to remove the requirement, further discussions would be required with the FRC given their previous opposition to the proposal.

33. It is suggested that a draft consultation paper, including an amended APS L1, is prepared and shared with the Board by email. The usual period of three months consultation would apply.

H: Decision

34. Members of the Board are asked to **approve (subject to consultation)**:

- a) the removal of the requirement for an RA to obtain a PC; or
- b) the introduction of a separate RA PC

and

the next steps of drafting a consultation paper and communicating the proposed approach to the FRC.

I: Appendices

- Appendix 1: Criteria for introducing a PC
- Appendix 2: Chief Actuary Competency Framework
- Appendix 3: Draft Reviewing Actuary Competency Framework