



## The Role of the Actuarial Function Holder

The UK Actuarial Profession's Life Board issued an [exposure draft \(EXD 60\)](#) in September 2005 covering changes to GN40, the profession's guidance note on the role of the *actuarial function holder*. The exposure draft is subject to formal consultation and written comments must be sent to the profession by 2 November 2005. Consultation meetings were held in Edinburgh and London on 11 and 12 October 2005, respectively. Following the consultation process, the aim is to issue a revised version of GN40 which will come into effect on 31 December 2005.

The exposure draft has a more logical structure than the existing guidance note and includes additional guidance, with a largely new section (paragraph 5) on capital requirements covering both Pillar 1 (minimum capital) and Pillar 2 (*Individual Capital Assessment*). The changes to the structure make it difficult to compare the exposure draft with the existing version of GN40 (version 1.1 issued in December 2004). We have provided a destination table at the end of this paper to aid comparison.

The main changes from the existing version of GN40 are covered below, along with a minor drafting issue on paragraph 3.5 which has been brought forward into the exposure draft from the existing version of the guidance note:

- **Paragraph 2 – regulatory requirements relating to the actuarial function holder.**

2.2-2.5 These are new paragraphs which are aimed at making the *actuarial function holder* fully aware of his or her rights to obtain information and insist on explanations. The paragraphs include extracts from the primary legislation, the Financial Services and Markets Act 2000, as well as cross references to the FSA's Supervision Manual (SUP), which contains additional rules and guidance. There is also a cross reference to the FSA's Statements of Principle and Code of Practice for Approved Persons (APER). The *actuarial function holder*, as an *approved person*, has to abide by APER, but the cross reference to APER is also to highlight the duties on other *approved persons* to provide information to the *actuarial function holder* that is not false, inaccurate or misleading and to keep the *actuarial function holder* informed of material information. [Note that draft paragraph 2.5, which contains the cross reference to APER, does not elaborate on the key points of APER, which is slightly disappointing. We hope that the final version adds some additional commentary.]

- **Paragraph 3 – the appointment of the actuarial function holder.**

3.5 This paragraph which deals with the unusual circumstance of a *firm* which has more than one *actuarial function holder*, is not a new paragraph, but we have always found the two references in this paragraph to "SUP 4.3.13R(1) and (2) above" odd. Either "above" should be deleted or the reference should be to a paragraph that is in the guidance note e.g. Paragraph 3.3.

- **Paragraph 5 – capital needed to support the business, including regulatory capital requirements.**

5.1 This sets out the requirement on the *actuarial function holder* to advise the *firm's* management on the risks that it runs insofar as they may have a material impact on the capital required. The *actuarial function holder* has to monitor these risks and inform the *firm's* management of material concerns. The advice has to cover both Pillar 1 (minimum capital) and Pillar 2 (*Individual Capital Assessment*).

5.2 The *actuarial function holder* should advise the *firm* on its ability to maintain a positive margin of its *capital resources* in excess of its *capital resources requirement* on an ongoing basis. The actuarial function holder should normally consider a range of future outcomes on both a Pillar 1 and Pillar 2 basis. [Note the text in the second sentence of 5.2 refers to "the actuary". It would be more appropriate to replace this by "the *actuarial function holder*".]

- 5.3 This sets out the key points that the *actuarial function holder* should consider and bring to the attention of the *firm* (at an appropriate level of seniority) in his or her assessment. The assessment should cover the full range of risks to which the *firm* is subject, the risk appetite of the *firm* and its *policyholders*, the availability of additional capital, the appropriateness of assumed prospective management actions in the event of adverse scenarios, and the capability of the *firm* to produce Pillar 2 calculations.
- 5.4 The *actuarial function holder* must consider whether it is necessary to take advice from other professionals on specialist issues e.g. from pension actuaries on final salary scheme liabilities, tax specialists on complex group issues and tax risks, legal professionals on material and complex legal arrangements, investment specialists on particular investments or general insurance actuaries (where there are general insurance liabilities within the same *firm*).
- 5.5 The *actuarial function holder* should determine and advise on suitable approaches that might be taken to reduce risk if the *actuarial function holder* doubts the ability of the *firm* to maintain a positive margin (of *capital resources* in excess of its *capital resources requirement*). In a with-profits *firm* he or she would make this assessment in conjunction with the *with-profits actuary* and consistent with the *firm's* PPFM. [Note the exposure draft does not have the words in brackets in its text in paragraph 5.5, although, to avoid any ambiguity, this would seem desirable.]
- 5.8 In a with-profits *firm*, Pillar 1 covers both the realistic and regulatory capital requirements (the twin peaks) and the possibility of a switch from one peak to the other must be considered by the *actuarial function holder*.
- 5.9-5.10 The *actuarial function holder* must also cover group issues (including group capital requirements) where the *firm* has *related undertakings*.
- 5.11 This covers *composite firms* and makes it clear that the *actuarial function holder* is not expected to give advice or monitor matters that do not affect the *long-term insurance business* of the *firm*.

Destination table			
Paragraph in GN40	Paragraph in EXD60	Paragraph in GN40	Paragraph in EXD60
1.1-1.9	1.1-1.9	4.1	6.1
1.10	3.1	4.2	6.2
1.11	3.2	4.3	Deleted
2.1	2.1	4.4	6.3
2.2	3.5	4.5	Deleted
2.3	3.6	4.6	6.4
2.4	3.7	4.7	6.5
2.5	Deleted	4.8	6.3
3.1	3.3	4.9	6.6
3.2	3.4 and 4.2	5.1-5.6	7.1-7.6
3.3	Deleted	6.1-6.5	8.1-8.5
3.4	4.3	7.1	5.2 and 5.6
3.5	4.1	7.2	5.7
3.6	4.4		
3.7	4.5 and 4.6		
3.8	4.7		

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