



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

30 March 2009

Our ref: ICAEW Rep 32/09

Your ref:

Andrew Carpenter
Policy Advisor
Association of British Insurers
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By email: Andrew.carpenter@abi.org.uk

Dear Mr Carpenter

EXTERNAL REVIEWS OF INTERNAL ACTUARIAL ADVICE: BEST PRACTICE FOR LIFE INSURERS

The Institute of Chartered Accountants in England and Wales (the Institute) is pleased to respond to your request for comments on *External Reviews of Internal Actuarial Advice: Best Practice for Life Insurers*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW Representation

ICAEW REP 32/09

EXTERNAL REVIEWS OF INTERNAL ACTUARIAL ADVICE: BEST PRACTICE FOR LIFE INSURERS

Memorandum of comment submitted in March 2009 by The Institute of Chartered Accountants in England and Wales, in response to the Association of British Insurers consultation paper *External Reviews of Internal Actuarial Advice: Best Practice for Life Insurers* published in December 2008.

Contents	Paragraph
Introduction	1
Who we are	2 - 3
Responses to specific questions	4 - 11

INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the consultation paper *External Reviews of Internal Actuarial Advice: Best Practice for Life Insurers* published by the Association of British Insurers (ABI).

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 750,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

RESPONSES TO SPECIFIC QUESTIONS

Q 1: Do you agree that the ABI should issue guidance for the governing bodies of life insurers on when it might be appropriate for there to be an external review of internal actuarial advice. If not why not?

4. We are happy for the ABI to issue guidance on this matter.

Q2: Do you agree that an external review of internal actuarial advice would need to be considered by the governing bodies of life insurers in the situations listed in paragraph 4? Are there other situations that should also be included in the list?

5. We agree with the items listed. In addition, we would add the following:
 - when the governing body considers that existing approaches may need change or refinement (eg. periods of economic stress);
 - periods where solvency is tight;
 - at times when the business model or the company's business mix has changed significantly;
 - and situations where internal audit do not have the actuarial capability to monitor and evaluate controls in this area.

Q3: Do you think that a general principle should be included in the guidance to help governing bodies determine when such a need for an external review should be considered? If so, what general principle do you propose?

6. We support a principles-based approach. Expanding on the comment at paragraph 8 of the consultation, the general principle could be:

7. External review should be sought when there is a risk that the life insurers' actuarial approach may not reflect current good practices in changing business, economic or regulatory environments

Q4: Do you agree with the list in paragraph 8 of the potential advantages of obtaining such an external review? Are there other advantages that should be included? Are there disadvantages that should also be mentioned?

8. A potential disadvantage is that external review could be used as a prop in circumstances where insufficient confidence exists in internal actuary instead of properly addressing competence gap.

Q5: Is there sufficient guidance to governing bodies on when external reviews should be obtained?

9. See our response to Q2.

Q6: Have you any other comments?

10. We note that paragraph 6 indicates that governing bodies may take comfort from actuarial review work performed for the purpose of the audit required by FSA rules. However, auditors perform such work for a specific purpose and it may not be appropriate for those charged with governance to draw comfort from it without establishing with the auditors that the scope and objective of their assurance work makes this appropriate.
11. The position in paragraph 7 of having an external Actuarial Function Holder (AFH) is common to many friendly societies. It would be reasonable for this to be considered a quasi-independent review, particularly if the external firm is one with its own internal peer review processes well established. If the external AFH is little more than a sole trader, however, more caution might be exercised in relying on this route.

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