

Chief Actuary or not Chief Actuary? - that is the question

Who is your Chief Actuary when you outsource the Solvency II actuarial function? We explore why there has been confusion and reveal the answer.

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Since the publication of the [draft EIOPA guidelines](#) on the System of Governance back in June 2014, one question asked by many - or perhaps by a few, many times - has been, 'who will need to be notified to and approved by the Prudential Regulation Authority (PRA) in respect of the actuarial function where the Solvency II actuarial function is outsourced?' We are aware that there is a degree of confusion within the industry at a time when many are reviewing the impact and implications of the Senior Insurance Managers Regime (SIMR), so we asked the PRA to provide clear guidance.

Why the confusion?

The [EIOPA guidelines on the System of Governance](#) (the EIOPA Guidelines) say that, where a Solvency II key function is outsourced, there must be a person within the firm who is fit and proper and possesses sufficient knowledge and experience regarding the outsourced key function to be able to challenge the performance and results of the service provider. The EIOPA Guidelines go on to say that it is this person within the firm who should be considered as the person responsible for the key function (according to Article 42 (2) of the Solvency II Directive) and who needs to be notified to the supervisory authority. Furthermore the EIOPA guidelines define the 'key function holder' as the person responsible for a key function.

This seems clear enough. The person within the firm responsible for the oversight of outsourcing of a key function should be considered the key function holder. But, in the UK, will the person responsible for the oversight of an outsourced actuarial function be the Chief Actuary? Read on to find out.

Let us first consider some elements of PRA publications:

The SIMR (as set out in [PS 22/15](#)) introduces the role of the Chief Actuary function (SIMF20). The Chief Actuary function is defined as 'the function of having responsibility for the actuarial function specified in Conditions Governing Business 6'.

Conditions Governing Business 6 (again set out in [PS 22/15](#)) relates to the provision of the actuarial function as required under Article 48 of the Solvency II Directive.

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If we cross-refer these elements to the EIOPA Guidelines:

*The Chief Actuary function (SIMF20) is defined as having **responsibility for the actuarial function**, the Solvency II key function as set out in Article 48 of the Solvency II Directive implemented in the UK as Conditions Governing Business 6.*

*The EIOPA Guidelines state, if a key function is outsourced, the person within the firm who ‘oversees’ the outsourcing key function holder is considered as the person **responsible for the key function**.*

Looking at these aspects alone it would be natural to draw the conclusion that, where the actuarial function is outsourced, the person within the firm responsible for oversight of the outsourcing is the Chief Actuary function (SIMF20). The PRA states its intention to adopt the EIOPA Guidelines in [CP 30/15](#) which gives additional weight to this interpretation. However, our considerations thus far make no explicit reference to external (i.e. outsourced) actuaries.

In [CP 24/14](#) the PRA made it clear that it expects a (re)insurance firm to appoint an external actuary where the firm does not have the capability to provide the Actuarial Function required under solvency II. In particular the Actuaries Rulebook text, as confirmed in [PS 2/15](#) says ‘a firm must appoint an external actuary if it does not have the internal capability to comply with Conditions Governing Business 6.1 or the relevant requirements of the Solvency II Regulations.’

Now, while the Actuaries Rulebook talks about appointing an actuary, it doesn’t explicitly mention anything about the allocation of responsibilities and it doesn’t really help with our analysis.

An alternative interpretation is that, where an external actuary is appointed, the external actuary is the Chief Actuary function (SIMF20), not the person within the firm responsible for oversight of the outsourcing.

This interpretation does not stem from analysis of Rulebook definitions, but from the PRA’s commentary in Section 14 of PS 2/15.

14.7 Where the firm (or group) does not have an internal individual with the relevant capability for the Chief Actuary role, then this individual will almost certainly by definition have to be an external actuary, and this is the person that the PRA would then expect to see being assessed as suitable for the Chief Actuary function.

14.8 In that scenario, the PRA would expect that the external actuary should normally report to another senior individual who is in one of the Controlled Functions, so that both individuals fall to be assessed (by both firms and PRA) as being fit and proper, albeit that the skills needed for the oversight role could be different. Any potential conflicts of interest that might arise through this oversight role would need to be managed in accordance with the Solvency II Regulations.

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Looking at PS 2/15 14.7 and 14.8 in isolation strongly suggests that the outsourced actuary will be the Chief Actuary function (SIMF20), although the person within the firm responsible for oversight would be expected to hold a Controlled Function...

...but then paragraph 14.9 of PS 2/15 raises some doubt:

14.9 In relation to the oversight of any outsourced key function, the PRA would expect a person within the firm to be designated with overall responsibility for the outsourced key function. This could include a director of the firm, even in circumstances where the directors and other individuals performing key functions are actually employed by a group service company. A director will be considered to be 'within the firm' for these purposes as the board is ultimately responsible for compliance with the Directive.

If we cross refer again:

*14.9 of PS 2/15 says the PRA expects someone within the firm to have **overall responsibility for the outsourced key function**; but,*

*The Chief Actuary function (SIMF20) is defined as having **responsibility for the actuarial function***

Does this contradict 14.7 and 14.8 of PS 2/15? Is having overall responsibility for the outsourced actuarial function the same as having responsibility for the actuarial function such that the person with overall responsibility for the outsourced actuarial function is the Chief Actuary function after all? Confused?

What is the correct interpretation?

We asked the PRA to confirm its position. It told us:

The external actuary would be the Chief Actuary (SIMF20). We would not expect the individual in the oversight role within the firm to be a SIMF20, but would expect him or her to be in some other relevant SIMF or Key Function Holder (KFH) role.

So, there we have it, 'straight from the horse's mouth.' Hopefully one less Solvency II/SIMR issue to worry about!

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact us via the following:

✉ john.hoskin@barnett-waddingham.co.uk

☎ 020 7776 3803

👉 www.barnett-waddingham.co.uk/insurance



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