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Your ref:  
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14<sup>th</sup> September 2004

Dear Paul

#### REVIEW OF GOVERNANCE OF LIFE MUTUALS

I have read the consultation document and considered the questions asked, in particular I turned my mind to questions 4, 5 and 6. There are a number of issues raised which have a consistent basis with the wider pension fund industry and local government pension fund management, and which have been raised in previous reviews. I have little knowledge of the life mutual industry and find it a little difficult to suggest issues which are both relevant to that industry and not well worn by past reviews.

Taking the three questions together, the key aspects appear to me to be:

- Quality of advice and its sources;
- Capacity of NEDs to understand and challenge effectively;
- Expectations of NEDs, and certification or regulation of their duties and of best practice.

In seeking to address these, I would suggest the following areas may be worth considering:

- [1] A requirement for an actuarial audit, i.e. an independent external review of the actuarial advice given to the board. This mechanism could also be used to provide independent advice to the NEDs, assuming no conflict of interest.
- [2] A process of inter-valuation monitoring which reports regularly or exceptionally on variations in actuarial assumptions which impact on the valuation outcome.
- [3] In local government, the requirement to publish a Funding Strategy Statement is key to defining responsibilities in a transparent way ~ the private sector equivalent could usefully do the same.
- [5] Strengthen or introduce an internal control framework which incorporates risk management and assurance review as an integral part of the process operating through all levels of the organisation to publish an annual Statement of Internal Control (SIC).



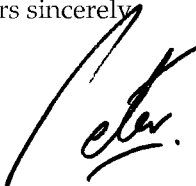
- [6] A properly formed Audit Committee or even Actuarial Audit Committee, could provide an effective independent scrutiny role within the SIC framework.
- [7] As part of the governance process, the board should publish an assessment of NED competencies, their ability to call on independent advice, and their declared interests and any conflicts that might arise.

With regard to item [5] useful references would be the CIPFA publication "Guidance on Internal Control and Risk management in principal local Authorities and other Relevant Bodies to Support Compliance with the Accounts and Audit Regulations 2003" and "Internal Controls 2003" published (27<sup>th</sup> February 2004) by Legal & General Assurance (Pensions Management) Ltd.

I appreciate that many of my comments sit more comfortably in the public sector but the principles could be suitably adapted for life mutuals. While local authorities are by necessity creatures of statute, for the purposes of your review, I would support an emphasis on codes and guidance on best practice more than regulation, using the "comply or explain" model.

I hope these brief observations can contribute to your review.

Yours sincerely

A handwritten signature in black ink, appearing to read "Peter", written in a cursive style.

PETER SCALES  
Chief Executive