



The Morris Review
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Your ref:
Our ref: D MORRIS INTERIM ASSESSMENT -
AON RESPONSE

Dear Sirs

Consultation Document: Morris interim assessment of the Actuarial Profession

On behalf of the actuarial practice at Aon Consulting, I attach as an appendix to this document our response to the options set out in the interim assessment of the Actuarial Profession.

As set out in our response to the earlier consultation, Aon employs over 100 actuaries in the UK who are primarily involved in the provision of advice to occupational pension schemes. Aon is the UK's largest insurance broker and provider of risk management services, a major force in reinsurance and number four in the UK human capital consulting market.

We welcome the opportunity to comment on the options set out in the above consultation paper.

Yours faithfully

Trevor Connor FIA
Principal & Actuary

Morris Review of the Actuarial Profession: Interim Assessment - Aon response

CHAPTER 2: THE MARKET FOR ACTUARIAL SERVICES

Increasing competition

Options

- Option 1: to the extent that the availability of professional indemnity insurance cover is acting or may in the future act to constrain entry and limit choice, ways could be explored of introducing liability caps; and/or
- Option 2: in the pensions area, unbundling the provision of advice related to statutory roles from other types of advice (particularly investment consulting services) would help open up the market to greater competition.

We have no objection to the review team exploring ways to introduce liability caps if the availability of professional indemnity insurance cover is acting constrain entry or choice.

Regarding option 2, consulting firms such as Aon provide services across a range of disciplines. These services are delivered by employees who have specialist experience in their specific area of expertise. These may be actuaries or non-actuaries, and we work together to deliver the most appropriate service to our clients. In particular, employees in the investment consulting practice come from a range of backgrounds: actuarial, fund management, investment research and academics as we recognise that investment consultancy requires a wide range of skills and influences. Where “bundled” services are provided a range of individuals from different practice areas will provide advice. In this way each of our service offerings stand on their own as “best of breed”.

We view our clients as “informed purchasers”. They are free to choose whether to purchase one or all of the services we make available; indeed clients take individual decisions in this respect depending on their needs. Some clients prefer to have a single adviser who has a deep understanding of their objectives and needs to provide a range of services and we have consistently invested to develop a range of offerings as a result of client demand. In doing so we believe that they benefit from linking closely an understanding of the liabilities with the investment advice. This provides benefits both in approaching the asset and liability advice in a holistic way and in terms of operational efficiency arising from common systems and culture. Other clients prefer to take scheme actuary and investment services from separate consultancies and we work with these clients to help ensure the success of this arrangement. Interfering with this free market would not assist clients, indeed it would potentially constrain the free choice of those who wish to purchase the full range of services offered by an adviser.

Increasing market testing

a) greater scrutiny of performance

Options

- Option 1: increased education/expertise of users; and/or
- Option 2: regular formal reviews of advisers could be recommended or required every 3-5 years; and/or
- Option 3: performance measurement of actuaries could be encouraged; and/or
- Option 4: effective peer review of actuarial advice could provide actuaries with a set of incentives that encourages them to improve the clarity of advice they provide, both technical and in relation to underlying assumptions.

Changes in the general business environment have led to increased knowledge and awareness of users of actuarial services, and measures contained in the Pensions Act 2004 will further address the issue for trustees of UK pension schemes.

Whilst it is desirable to review the service provided by advisers, we believe that the manner and timing should be driven by the users of the service as they see fit. It should be noted that a formal, as opposed to informal, review process can be a time consuming and costly process and the additional direct and indirect costs of any mandatory requirement would need to be weighed up against the potential benefits on each occasion. Following the Myners report, many clients did take the opportunity to formally review the services that we provide and they remain able to do so again in the future. Clients are free to review all or any of the services that we provide and we believe that this remains the most appropriate model for review.

With regard to performance review of actuaries, we actively seek feedback from all our clients with regard to the services provided, with particular focus on areas of improvement. It is difficult to see how, for instance, particular performance measures for scheme actuary work could be easily mandated. We believe that a better focus would be on demonstrating where actuaries add value in the process of helping to understand and manage the long term liabilities that our clients have undertaken. Our clients are intelligent and successful business people who operate in a commercial environment and are able to decide whether the services that we provide meet with their needs and expectations.

Aon has for a number of years operated a successful requirement for peer review of advice. This is supplemented by the new GN48 compliance requirements from the Profession concerning certain advice given in the capacity as scheme actuary, which has now also been introduced and which we would hope would serve to improve confidence in the users of actuarial advice.

Increasing market testing

b) improving user understanding

Options

- Option 1: user knowledge and understanding should be encouraged by measures to raise the required standards of knowledge and expertise, of which several initiatives are already in train;
- and/or
- Option 2: in relation to pensions, trustees could be given information on the Profession's own guidance notes, to better understand what actuaries are supposed to do. This could be used as a basis for encouraging more systematic challenge; and/or
 - Option 3: greater use of professional trustees or trustees who are members of several trustee boards.

As commented in a) above, measures are in hand under the Pensions Act to raise the level of trustees understanding. We agree that this is a desirable and effective objective.

We do not believe that a "guide to guidance" would be desirable or effective. Users of actuarial advice should not need to know how that advice is arrived at, but they do need to ensure that they understand the advice being provided and any limitations of that advice, as well as what can be reasonably be expected to be delivered. We believe the users should be in a position to challenge and question the advice being provided. Actuarial Guidance Notes can be freely accessed at present from the Profession's website for interested parties, but we believe that it would be more helpful to promote, for instance, publications similar to OPRA's "getting the best from your advisers" to help improve understanding of the actuary's role and actuarial principles.

Actuaries can and do help explain the nature of the liabilities and the factors that influence the change in liabilities over time. However, the present value of liabilities at any time will be subject to uncertainties, particularly in relation to future investment performance. While clients strive for clear advice, it should also be recognised that uncertainty is inherent in the nature of the design and this also needs to be communicated effectively as part of clear advice and understood by users of that advice. We feel that we have a responsibility to ensure we deliver advice in such a way that helps to achieve these aims and we constantly strive to do so, but the overall feedback to the Review is that this is the area in which improved understanding would be beneficial, and we would support wider initiatives to assist achieve that.

Whilst we agree that professional trustees can and do provide a valuable role, it should be for each trustee board (or the employer as appropriate) to decide the appropriate composition of the trustee board in each case to best reflect their individual needs.

Improving clarity of advice

Options

- Option 1: leave it to the market, on the basis that if users can be encouraged to challenge more effectively, actuaries will stand or fall by their ability to respond positively; or
- Option 2: improve actuarial training and CPD requirements to equip actuaries with improved communication skills; and/or
- Option 3: require clearer disclosure of actuarial advice, assumptions and key sensitivities. For example by requiring the disclosure of forward-looking financial condition reports; and/or
- Option 4: explore means by which regulatory requirements might be simplified.

We believe that in the competitive market for pension services, clarity of communication of complex ideas is one of the differentiators that clients use to assess the quality of services being provided.

Although training is desirable, it alone does not address the issue where an individual actuary is an inherently poor communicator – experience shows that such individuals are more likely to improve by experience and example. It is not clear how CPD requirements would be sufficiently targeted for individual needs, but individuals should be encouraged to seek feedback on the effectiveness of their communication skills and to use CPD options where appropriate to address any needs identified. Market forces will also have an effect here – no user of services will wish to receive advice they cannot understand – and will act accordingly if this is the case.

With regard to the final two options we are somewhat unclear as to the intention. However we would make the general observation that an onerous compliance regime tends to act against rather than encourage clear communication. We would prefer to see a broad principles based approach, for example by initially agreeing the scope, objectives and limitations of the advice and then ensuring that this is delivered. This is a general consultancy process and not a specific actuarial skill.

CHAPTER 5: PUBLIC INTEREST AND ACCOUNTABILITY

Reporting and whistle-blowing

Options

- Option 1: more comprehensive guidance from the Profession or from regulators on the circumstances in which whistle-blowing is permitted and when it is required, covering all relevant statutory, regulatory and professional provisions, matters which regulators are likely to regard as significant, and the safeguards and sanctions available; and/or
- Option 2: ensuring that, on the one hand, legal protections for whistle-blowers are wide and give appropriate room for individual judgment, based on good faith and what an actuary “reasonably believes”; while nonetheless ensuring that, on the other hand, duties to whistle-blow are clear, objective and enforceable, for example based on what an actuary has “reasonable cause to believe”; and/or
- Option 3: bringing whistle-blowing requirements for auditors and all actuaries more closely into line, and extending protections for whistle-blowers, e.g. supplementing the existing relief from duties of confidentiality with statutory provisions conferring qualified privilege (ie when acting in good faith) from actions in defamation.

We remain of the view that the appropriate legal and professional duties and safeguards are already in place to allow for full reporting in appropriate circumstances. Having said that, we would have no objection to more comprehensive guidance from the profession or regulators if they felt this was appropriate.

Pensions

Options

- Option 1: status quo – Scheme Actuary advises both the scheme sponsor and trustees, unless the actuary deems there to be a conflict, in which case the Scheme Actuary only advises the trustees;
- or
- Option 2: Scheme Actuary advises both the scheme sponsor and trustees, unless the trustees deem there to be a conflict, in which case the Scheme Actuary only advises the trustees; or
 - Option 3: role of advising the scheme sponsor and the scheme trustees is separated in some clearly defined circumstances e.g. during scheme wind-up; or
 - Option 4: role of advising the scheme sponsor and the scheme trustees is separated at all times.

As pensions advisers we are of the view that the current regime permits either party to terminate the relationship if they feel that there is a conflict. We believe that Scheme Actuaries are constantly alert to the possibility of conflicts of interest and the Profession has published legal opinion that it has received on this subject. The issue of possible conflicts occurring is specifically covered in our contracts with clients. Further requirements in this area would not assist; indeed they may actually operate to constrain the operation of the adviser relationship in certain circumstances. This would be possible if the Scheme Actuary had been alerted to matters in his role as adviser to the employer that gave rise to a conflict – as he may then find himself unable to advise either party (if the trustees had required the employer role to be terminated).

Individual clients have taken different approaches in this area, depending on their individual preferences. The current provisions in the Pensions Act (which are subject to final regulations and the Code of Practice to be issued by the Regulator) move to the Company and Trustees agreeing a funding and contribution strategy, supported by the advice of the actuary. We believe that clients are best positioned to decide whether the parties want the same or different actuaries to act for the parties and whether these be from the same or different firms.

With regard to the proposal of general separation, we can see no circumstances in which it could be argued that there will always be a conflict. It is in clients' interests to receive full and impartial advice, and as such they are best placed to determine whether they require separation of advice to ensure that this is the case. The need will vary according to circumstance – although if the actuary is aware of a conflict they are under a professional duty to take appropriate action. It should be noted that many Trustees themselves have potential conflicts of interest, often being a Company officer, Trustee and member, and so the issue of conflicts is one which is frequently discussed at Trustee meetings. Ultimately, it is a commercial decision for clients to decide whether they wish to provide for separate actuarial advice as a matter of course, or only as and when the need arises.

CHAPTER 6: EDUCATION AND CPD

The syllabus and governance

Options

- Option 1: minor reform of the existing governance structure to promote greater academic and non-actuarial input; or
- Option 2: establish an independent body with oversight of the Profession's syllabus development along the lines of the accountancy profession's Professional Oversight Board for Accountancy (POBA).

Examinations issues

Options

- Option 1: reform of the existing governance structure to improve quality control; and/or
- Option 2: involvement of full-time and dedicated professional examiners; and/or
- Option 3: involvement of an independent oversight body in exam setting and marking.

Broadening actuarial education provision

Options

- Option 1: wider provision and accreditation of degrees that grant exemptions from the Profession's exams; and/or
- Option 2: promotion of post-graduate fast-track law-style conversion courses for those with university degrees.

It is important for the development of the profession that academic thought and research is encouraged. Indeed, the Profession has already put in place a number of steps to encourage links with universities. However, part of the development of an individual who wishes to act as a consulting actuary is necessarily work based experience. A client will have no use for an actuary who has a sound academic training, but no idea of their needs or how to serve them.

In considering the above issues the right balance needs to be struck bearing in mind client demands, the Profession's development, the cost associated with the proposals and the willingness of users of actuarial services to meet higher costs. We would consider that individual development can be achieved as much through the CPD regime as in the education of pre-qualified actuaries.

Continuing professional development (CPD)

Options

- Option 1: the Profession should set out clear objectives for the CPD Scheme and clarify what constitutes formal CPD. The Profession should ensure that CPD that qualifies as formal CPD is meeting an objective of the CPD Scheme, and is not simply a tick-box exercise based on attendance at meetings or conferences; and/or
- Option 2: the Profession should consider increasing the amount and quality of formal CPD required for reserved role holders, in recognition of the importance of these roles. For example, the Profession, with regulator input, could develop tailored CPD opportunities ahead of key changes in the regulatory environment for actuaries in reserved roles; and/or
- Option 3: closer links could be fostered between those within the Profession with responsibility for syllabus development, the actuarial research community and those focused on CPD to ensure that the CPD Scheme is kept-up-to-date and reflects recent developments in other disciplines and actuarial research; and/or
- Option 4: greater input to the CPD Scheme could be given to research-oriented actuaries, overseas actuaries and non-actuaries, for example through involvement in an oversight body, constitutionally independent of the Profession containing a mix of actuaries and non-actuaries. This could monitor the Profession's performance in relation to CPD Scheme development to ensure that the scheme is kept up-to-date, that links to other disciplines and actuarial research are made and that CPD is available to all actuaries, not just to those working in traditional areas.

We think that it is desirable for there to be clarity as to the objective of the CPD scheme and would support any initiative that reinforces this. We also agree that the links mentioned in option 3 would help to ensure that the CPD scheme was focused to allow for changes in thinking and the business environment and should be supported.

We would however be concerned with any change that led to a "tick box" mentality. A requirement for a significant increase in formal CPD each year would be likely to lead to this approach. We believe that actuaries in reserved roles do take the opportunity to participate in CPD events designed around changes in the regulatory environment; as well as the professional requirement, such changes are also accompanied by commercial pressures to develop the necessary understanding to deliver advice in the new regime which reinforces the need for development. We believe that increasing the mandatory formal CPD requirements would not be productive.

In our experience, actuaries do seek new challenges, new learning and personal development. We believe that the objective of the CPD scheme should be to support a culture of continued development throughout a career. The focus should be on providing sufficient CPD opportunities to meet the general objectives and to act as a guide to new areas of development of which practitioners should be aware. However too much central direction would potentially restrict members' opportunities to explore other areas of interest which could also be beneficial to the wider Profession. In particular, the approach set out under option 4 seems overly bureaucratic and may well result in a loss of the sight of the original objectives. We feel that the appropriate links should be made, but that this can be achieved by way of the other options.

CPD monitoring

Options

- Option 1: the Profession implements its three-tiered professional revalidation proposal as currently envisaged, which introduces technical CPD requirements and annual monitoring for reserved role holders, technical CPD requirements and three-yearly monitoring for holders of the new voluntary non-statutory practising certificates, and basic CPD requirements and 10-yearly monitoring for the remainder of working actuaries; or
- Option 2: as Option 1 but non-statutory practising certificate regime is expanded to cover all actuaries (except those performing statutory roles) so the technical CPD requirements and three yearly monitoring apply to all working actuaries; and/or
- Option 3: the task of monitoring CPD requirements and monitoring of compliance with the CPD scheme should be made part of the remit of the independent professional oversight body referred to above.

Unless there is a clear advantage to clients in extending the monitoring programme (which we do not believe to be the case) we can see no benefit in an onerous system of monitoring. We favour a system that acts to encourage actuaries to actively seek wide and appropriate CPD. There is a danger that too high a compliance and monitoring requirement will lead to a “tick box” mentality (by both actuaries and those administering the regime) and detract from the underlying purpose to the detriment of clients.

CHAPTER 7: STANDARD-SETTING

Actuarial standard-setting

Options

- Option 1: Actuarial Standards Board (ActSB) which is quasi-independent of the Profession (as per the Profession’s proposal); or
- Option 2: Actuarial Standards Board (ActSB) subject to oversight by a suitably independent body, for example the Financial Reporting Council; or
- Option 3: the FSA sets standards in life and general insurance, and DWP/OPRA sets standards for pensions.

We support the idea of an Actuarial Standards Board, but the costs and practicality of its operation should be the determining factors in its constitution. It is not clear at this stage that the FRC would have the necessary time, desire and expertise to fully understand the rationale and objectives of the profession and the technical and legislative constraints imposed. The Actuarial Profession does have a distinct role different from that of the Accountancy Profession which works within a different framework. It follows that it is not necessarily the case that the FRC would automatically be best placed to undertake the independent oversight role. We suggest that this is the subject of further discussion between the Review team, the Profession and the FRC. We do not believe that the DWP/OPRA have a specific role to play in overall Actuarial Standard setting, but do have a crucial role in regulating pension schemes.

CHAPTER 8: SCRUTINY AND DISCIPLINE

Scrutiny of actuaries in pensions

Options

- Option 1: maintain the status quo of no formal scrutiny; or
- Option 2: include long-term liabilities within pension scheme financial statements, which are then audited; and/or
- Option 3: introduce peer review of the Scheme Actuary as envisaged by the Profession; and/or
- Option 4: audit the Scheme Actuary's triennial valuation.

The actuarial profession has now introduced GN48: Compliance Review and so option 1 no longer applies. Aon supports peer review and have internal peer review procedures which we find to be effective. The current requirements under GN48 could be extended to reflect wider objectives if this was felt to be beneficial.

We would make the following observations regarding the audit of actuarial funding valuations as set out in the second and final options.

- For audit to be effective, it is necessary to have a clear set of rules against which the auditor can compare each item being audited. Taking into account the individual requirements of each client, the specifics of each Trust Deed and Rules and the level of professional judgment permitted under many actuarial standards, it would be difficult to construct such rules so that audit would be very difficult or meaningless. The current provisions in the Pensions Act (which are subject to final regulations and the Code of Practice to be issued by the Regulator) move to the Company and Trustees agreeing a funding and contribution strategy, supported by the advice of the actuary. It is not clear in this framework how auditing liabilities would assist this process, when the actuary has already has professional responsibilities.
- Auditors may not have the appropriate experience or expertise to pass ready comment on pension valuation figures. This differs from the position in life assurance where actuaries work closely with teams of auditors who gain understanding of the issues relevant to the role they carry out.
- Whilst it would add to costs for clients it is unclear whether it would bring direct benefits. SSAP24 figures have been produced for many years and are subject to audit. Often, these directly follow from the actuarial valuation. However, we are not aware of auditors raising any issues with clients or actuaries regarding the basis of valuation as a result.

We note that clients are able at present to commission an independent third party actuary to review assumptions or methodology adopted for triennial valuations should they so wish.

Discipline

Options

- Option 1: the disciplinary scheme remains accountable to the Faculty and Institute's Councils; or
- Option 2: the disciplinary scheme is accountable to a suitable independent oversight body; and/or
- Option 3: encouragement of closer links between whistle-blowing to regulators and the disciplinary scheme.

The important issue here is one of user confidence. We are supportive of the current disciplinary scheme. However, if users of actuarial services have indicated a preference for an independent oversight body and this would have a significant impact on confidence in the Profession, then this should be investigated further. However, this has not been a concern raised by our clients.