

Actuarial Society of India

04 02 2005

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Morris Review on the Actuarial Profession: Interim Assessment – Response of the Actuarial Society of India

1 The Actuarial Society of India had been one of the respondents to the Consultation Paper that was brought out in the process of review of the Actuarial Profession in the UK by Morris Committee. We had tried to cover such issues as had been raised in that preliminary exercise except in so far as they had related to the functioning of the Government Actuary's Department. We had felt that in the background of the ASI's association with the UK actuarial bodies, concerns raised with respect to the actuarial profession there, were as well of relevance to us.

2 The concerns we ourselves had expressed in our earlier response arose largely from the Morris Review set up, having been as a fall out as it were to the Inquiry by Lord Penrose on the Equitable. Life and arose from the wide ranging conclusions that Report came to. What we had particularly noted was that these conclusions were reached in hind sight, as Lord Penrose himself acknowledged, and did not represent, as we saw, a fair view of what Lord Penrose reported on as acts of commission and omission. We did have apprehension about any further review that was to be undertaken, as is the Morris Review. Having studied the Interim Assessment brought out we do need to react.

3 We respond first to the observations as they are contained in the Executive Summary since they seem to represent the Morris Committee's tentative conclusions. We do note the development in the several chapters of optional

courses of action and indicate against these our own specific views on what would or may need to be done. In these responses we have been guided by the strong conviction that any profession - particularly an established one – needs to have its integrity preserved, with the evolution in its standards and practices to move with any changing expectations from those whom the profession serves, as perceived by the profession, being brought about largely as a result of a system of self regulation, left to the profession to subject itself to, and not through an imposition from outside the profession, including any arrangement to oversee and monitor the activities of the profession and of its members.

4 In an overview certain concerns are expressed. They follow after a statement identifying the defining feature of virtually all actuarial work as that of seeking to characterise, measure and analyse an uncertain future, and what could seem a condescending admission, that there was “no reason to doubt that the overwhelming majority of actuaries in the UK are dedicated, skilled professionals providing important and useful advice to the best of their abilities, with commitment, integrity and a strong sense of duty.”

5 As spelt out, these concerns are:

- a. the insularity of the actuarial profession, with too narrow a professional training and a slowness to adopt new approaches or techniques, particularly from the disciplines of economics, statistics and demography.
- b. excessive expectations from and promises by the profession explicitly or otherwise in what is an inherently uncertain future and a tendency “to avoid or resist clear presentation of the unavoidable risks and uncertainties that accompany most long term projections in the fields of life and general insurance and pensions.”

- c. an insufficient transparency in actuarial advice, if less of late, with the advice having the characteristics of 'black box' analysis and the methodology and calculations lying behind the outputs and even the input assumptions being quite opaque.
- d. an excessive assumption of and reliance on the role of actuaries, both where there is exclusive reservation and in the roughly three quarters of the work that actuaries otherwise do, where there is overlap with the work of financial analysts, economists, statisticians, demographers and others.
- e. the fall in long term savings by the population to levels below those required to meet their needs and the role of the actuarial profession in the emergence of such problems, considering their active involvement in the pensions and insurance industry for many years.

6 Our concern is that the overview perhaps reflects an inadequate appreciation of what the actuaries have been doing or what they could have done, an exaggeration not necessarily called for and a mandate to fix responsibility for a 'crash' that occurred, away from economic, political and legal developments, which actuaries, or others for that matter, could hardly have anticipated. We are particularly led to this perception from the mention on the one hand of criticisms against the actuarial profession for not adequately seeing, understanding and responding to the market developments over the 1990s and remark simultaneously that an actuary who had foreseen them and had tried to provide advice appropriate to the circumstances would have lost credibility. The last observation has also to be seen against the question how far economists and financial analysts, experts in market study and trends therein, had anticipated the full course of the developments. An answer is provided in para 1.20 of the Report.

7 The Review proceeds though, having expressed a set of concerns on how the actuarial profession was perceived to be performing, to spell out how actuaries are trained, what standards are set and how they are enforced, and to what scrutiny they are subject; to whom they are accountable, how this incorporates public interest considerations and how an appropriate regulatory authority can secure this; and how actuarial advice is made available so that through market or other mechanisms users are able to identify, select and evaluate the best advice.

8 The Executive Summary goes on to dwell on the conclusions that had been come to, in the several areas referred to. While these are briefly listed, our responses are provided as we come specifically to chapters of the Report, where alternative courses of action are posited for option by the respondents, in what has apparently been a process of framing issues to be chosen from as representing the respondents' particular views, in the background yet of the Morris Committee's own conclusions, of whatever interim nature.

9 On Competition

The Review proposes a number of policy options to:

- a. encourage greater market testing of actuarial advice by users of these services
- b. discourage the use of full-service appointments to pension funds
- c. improve the way actuaries communicate with users in order to narrow 'understanding gap' between actuaries and their users.
- d. increase the level of user knowledge and understanding of actuarial matters.
- e. introduce greater scrutiny and challenge of actuarial service.

10 On Regulation

A number of weaknesses are perceived with which one would not necessarily agree:

- a. inadequate protection of public interest
- b. professional standards that have been weak, ambiguous, or too limited in range and perceived as influenced by commercial interests
- c. an absence of proactive monitoring of compliance with professional standards
- d. a profession that has been too introspective, not forward looking enough and slow to modernise.

After indicating possible models of regulation;

- e. continued self regulation by the profession
- f. independent oversight – profession’s self regulation overseen by an independent body
- g. full statutory regulation.

the Review makes a mention of its current thinking as that an independent oversight of the Professions’ self regulation might be the best way to continue professional actuarial input into the regulative framework with sufficient independence from the Profession to provide the necessary protection and assurance for the public.

11 Reserved Roles

On reserved roles for actuaries, the Review takes the view that while for the short term actuaries could continue with the specific roles laid out for them in the life and pensions areas, there could be need, from considerations of bringing about competition, for statutory regulators to revert to the issue and consider opening up these roles to other suitably qualified professionals.

12 Public interest and accountability

The conclusion come to is that there is a real need to provide clarity on whom actuaries are accountable to and for what, to have a clear hierarchy of accountabilities, guidance on when the actuary must whistle–blow and act in the public interest, with protections and incentives available for whistle–blowing.

13 Education/CPD

A number of issues are identified which, read with other professed views on added inputs required in an actuary’s knowledge and skills, could seem to lead to a degree of contradiction.

14 Standard setting

Weaknesses are perceived in the current approach much as in the area of self – regulation generally and noting the steps taken to put up an Actuarial Standards Board, the Review does still see a need for oversight being provided, as making for greater independence of the profession in the manner it is done for accounting or audit standards.

15 Scrutiny and discipline

The Review believes that, given the gap in understanding that is premised to exist between users of actuarial advice and their advisers, it is essential to introduce a formal scrutiny, either through audit or peer review.

Chapter 1 Introduction

16 The Review starts the introduction with listing a number of issues identified by Lord Penrose in his report as concerning the actuarial profession :

- a. A lack of comprehensive professional standards

- b. An over reliance on the role of the Appointed Actuary
- c. A lack of scrutiny and audit of actuarial calculations
- d. Reactive disciplinary procedures
- e. Reluctance to challenge fellow actuarial professionals
- f. Concern about the Government Actuary's Department

17 It notes in this connection that Lord Penrose's inquiry was focused on one life insurance company, Equitable Life.

18 The starting point for the Morris Review is stated to be the more general concerns which Lord Penrose raised about the actuarial profession and that the terms of reference for the review have been drawn very broadly, to allow a wide ranging investigation. Further, while the review to a considerable extent focuses on the concerns raised by Lord Penrose, it has not been restricted to them.

19 We had remarked, in our earlier response to the Consultation Paper, that the conclusions that Lord Penrose came to with respect to the Equitable Life were very largely from hind sight, a point he had himself acknowledged. It did also seem to us that the extension to cover the entire actuarial profession besides the GAD and the regulators were not necessarily warranted by findings relating to the Equitable Life and as observe from outside the U.K., we also gathered the impression that in the profession in the U.K. too there were misgivings over the broadening of the conclusions to question the profession generally. We were particularly concerned that many of the findings as such noted by Lord Penrose in relation to the Equitable Life did not again lead naturally to the conclusions he came to; with distinct possibility of differences in interpretation and on wider application.

20 What could well be seen as a political decision on Lord Penrose's report and the recommendations made by him has led to the Morris Review and the broader

framing of the terms of reference to make for something like a total review of the actuarial profession.

21 Of the actuarial profession the Review notes that it is of immense significance, exercising a powerful effect on the well-being of the community. A highly skilled, efficient, effective and innovative actuarial profession is essential if a range of different important decisions concerning individuals' financial planning are to be soundly based; and if, as a result, financial stability and the economic, well-being of the population as a whole are to be maintained.

22 Having said this the Review goes on to state that no evidence has been received in the course of the review to suggest that the overwhelming majority of actuaries in the U.K. are anything other than dedicated, skilled professionals providing important and useful advice to the best of their abilities, with commitment, integrity and a strong sense of professional duty (noted in the Executive Summary as well and remarked on by us). In addition, it is clear that the U.K. profession is well respected and, in some instances, has been a world leader in moving the profession forward globally.

23 The Review considers it nonetheless clear that the actuarial profession in the UK has faced a growing number of quite serious problems and in many cases does not appear to have responded in a timely fashion to them.

24 The concerns expressed in this connection were listed earlier while drawing on the Executive Summary. We are constrained to take the view that, based on these concerns that have been received in feedback by the Review, there could well be some inadequacy of understanding in regard to how the profession functions, possibly from distortions in the feedback process.

25 In regard to the insularity seen in the actuarial profession, the Executive Summary had specifically identified the disciplines of economics, statistics and

demography as ones, from which inputs were having less impact than they should. The mention of these three disciplines is surprising since statistics and demography form core areas for study as part of actuarial training and apart from a grounding required in economics as well, the subjects of investment and finance are dealt with at higher level in the latter stages of the qualifying examinations and do also form areas for specialisation. The methodologies of financial economics and economic model-building are enjoined for study to widen an actuary's approach to situations he could face even in the traditional areas falling within his purview, but are left as a post-qualification exercise. Medicine and genetics are mentioned; here advances therein of relevance to an actuary are covered in occasional papers presented to the professional bodies for discussion. That actuaries have been slow to respond to innovative thinking and that the scope to develop and utilise actuarial skills in new areas outside the traditional ones has been less than elsewhere are rather sweeping statements. Good communication has been a matter of concern with the actuarial profession, in the background that much of technical actuarial work has to be translated into simpler and more generally understood language than need be the case in communications with another professional. The ability to communicate well is an area where an actuarial student is now tested. And in respect of business management skills, while actuaries have risen in quite large numbers to senior positions of management, on skills and judgmental capacity they developed, post-qualification, a grounding in business management is now made part of the qualification requirement.

26 The second concern expressed by the Review is that too much has been expected of actuaries and, explicitly or otherwise, too much has been promised by them. Given an uncertain future and a population that is risk-averse, the Review notes that various types of insurance can significantly reduce the problem, and a proper understanding of future risks, as analysed in actuarial work, can substantially assist most people to cope with that uncertainty. However it is stated to have repeatedly emerged that most of those involved

have tended to avoid or resist clear presentation of the unavoidable risks inherent in assessment of an uncertain future, particularly where long-term projections are concerned, as in life insurance or pensions and sometimes in general insurance.

27 While a firm conclusion as above is drawn on the feedback received, the Review qualifies as an impressionistic view to an extent, that clients have often sought the apparent comfort of a single estimate of future outcomes; that actuaries have provided a degree of confidence to clients by reducing numerous elements of uncertainty to 'best' or point estimates; that customers have been reluctant to hear about or to face up to these inherent risks and to an extent to have acquiesced in such an approach; and the regulatory regime may well have contributed to this in the past through emphasis on the need for specific figures to be calculated and presented in ways that encourage such confidence.

28 The Review assessment as based on feedback received, necessarily takes a view when weighing between different opinions as expressed in the feedback. For the reader, the relative weights remain untested and the conclusions come to could remain in question.

29 A reluctance, in relation to the present concern, could arise also from wondering how other professionals who deal with uncertain futures, such as financial analysts and economists, provide advice such as the users of their services do understand and assess.

30 Are actuaries the one group of professionals who stand charged with failing to bring out the significance of the uncertainties that still underlie the advice they give and, in a different context, are held to be poor communicators, lacking skills of transparency? Do users of actuarial advice, in the situations of uncertainty in which it is sought, get to conclude that all the uncertainties disappear with receipt of an advice that is not hedged by ranges of value and probabilities?

31 A charge again in the context of the uncertainties covering the areas of work of actuaries is their collective failure to anticipate the serious market downturns that took place during the 1990s, compounded by a slowness to respond to what was indeed perceived to be happening. The Review, rather reluctantly perhaps, mentions that very few indeed did see what was happening, including experts in other relevant fields such as macro-economic forecasting. Elsewhere it also remarked that any individual actuary who had indeed shown perception enough to try to adjust to his anticipations could have lost credibility.

32 Back on the see-saw, in relation to the failure to see the excessive levels to which equity stock prices had risen by the end of the 1990s and what could well follow, the Review does remark in what could seem a condescension that there is a risk here of demanding or expecting an unrealistic level of forecasting ability or insight from actuaries, essentially to know more about the future of equities than the market itself. It goes on to note though that some at the time did identify that the market appeared to be, on the basis of various benchmarks, at an unsustainable level and, in some cases, took this into account in asset allocation decisions. (Did they incidentally lose credibility by doing so?). Damningly the Review concludes that it did not necessarily require the benefit of hindsight to ask whether the profession as a whole was geared to innovative, best practice analysis, a rhetorical question perhaps if any.

33 In relation to the concern expressed over a lack of transparency in actuarial advice, considering the very technical nature of much of the work that actuaries engage in, would the concept of a “black box” not be a natural part of the picture, as with any other technical work in any other discipline? Will the lay user – as distinguished perhaps from the informed user, one with a degree of background that makes him more demanding - be interested in and be able to understand what inputs the actuary uses for the calculations he engages in and what outputs come out – raw as they could primarily be? Does the actuary stand condemned

if his advice tends to be a little technical and also if, in an effort to make the user understand, the actuary reduces his advice to rather simple terms, without any hedging or circumscription? The answer provided is, “Yes, members of a profession providing advice and expertise on complex and technical matters should be able to convey more clearly and in a more useful form the nature of their advice and the key considerations”.

34 In expressing a concern over certain roles being reserved for actuaries, a premise underlying the Review is that all the actuaries are (regarded as) experts in assessing future long term liabilities, any claims to expertise in asset management would be questionable. That liability handling or management is seen in isolation would not seem to matter in how well the actuaries do perform, that the matching of liabilities by assets held against them could be a joint exercise between the actuary managing the liabilities and an investment expert handling the assets. We find ourselves seriously differing on this perception and have had some thing further to say in our response on a latter chapter.

35 We have difficulty again with the attribution in a major measure of the fall in long term savings in the population (in the U.K.) to actuaries, as having contributed to disappointments over lowered returns under life insurance and pension arrangements. Left to be presumed is that the people chose to consume what they were apparently reluctant to put into life insurance or pensions, instead of looking for any alternative forms of saving. If the actuaries had failed to anticipate the change in the investment climate and existing policyholders and members of pension schemes were affected, is the flight from and resistance to a range of financial products which arguably consumers should purchase or seek to obtain a right to, in order to maximum their long time economic well-being, as is seen to have taken place, to be laid well and truly at the doors of actuaries? More than ten years on, in the sort of market developments that are taking place, do people still shy away from products with which actuaries are associated?

36 In a summing up, the review notes that the central question, as much for the Profession, is how it can encourage availability of and efficient delivery of, best practice actuarial services to users. Three main elements are seen;

- a. how actuaries are trained, both pre-qualification and through continuing professional development;
- b. what standards they are required to meet and how these standards are set, and
- c. what forms of scrutiny, be these audit, peer review or disciplinary, are required to maintain the highest levels of expertise.

37 Reflecting the wider public interest involved in securing effective and appropriate long term financial provision for the population, the second question is stated to concern the extent of accountability of actuaries beyond that which they owe to their immediate clients; how this can be properly specified through an appropriate regulatory regime; and to extent it is necessary to make actuarial advice mandatory to meet such public interest objectives.

38 A third question focuses on how such advice is made available so that, through market or other mechanisms, users are able to identify and get access to best advice, and in the process ensure value for money.

39 Responses are provided while dealing with the chapters where the issues are further dwelt on. One reaction that we need to come out with here is to wonder, with respect to a profession considered relatively small in number (and therefore, presumably, subject to fewer problems in attempts at self regulation) and about which the review itself has noted, “No evidence has been received in the course of this review to suggest that an overwhelming majority of actuaries in the U.K. are anything other than dedicated, skilled professional providing important and useful advice to best of their abilities, with commitment, integrity and a strong sense of professional duty” have to be subjected to the sort of scrutiny taking

place, unless a sting is to be seen in use of the words “to the best of their abilities”.

Chapter 2 Market for Actuarial Services

40 In regard to the pensions area the overall picture stated to emerge is of general satisfaction with actuarial advice. However, concern is expressed over limited market testing and relatively little scrutiny. Assessment, it is further noted, appears therefore to a considerable extent to rely on common sense, trust in the adviser and good exercise of a user’s judgment. It is acknowledged here that this situation is not unusual in relation to the provision of technical services. The significance here of distinguishing actuarial advice as generally being of critical importance is not clear, particularly as there is a view also expressed that a total role often played by an actuary in relation to a pension scheme reflects a sort of intrusion into the investment and management of pension fund assets where he is not necessarily best placed to advise.

41 The last mentioned view, more generally expressed as an appreciation of the role that actuaries play in dealing with long term liabilities, without extending it to what they need to do, in the management of such liabilities to hold assets adequately covering the liabilities in the sense of largely being able to meet the liabilities as they arose, would reflect an inadequate understanding of the acknowledged part of the actuaries’ role, bereft of the complementary function of managing that the liabilities could duly be met with a fair degree of assurance by the assets held. There is a total function here of asset-liability management and a divided responsibility cannot make for better efficiency.

42 While referring to a growing demand for pensions actuaries, the Review would seem to consider a degree of cartelisation to exist with a few very large firms dominating the pensions market. There is mention though of a process of assessment to be in vogue, of market testing as it is referred to, in considering

renewals of contracts with pensions advisers – Scheme Actuaries. As barriers still to switching of actuarial advisers, factors listed include:

- a. The importance of establishing long–running adviser relationships and the fact that advisers build up specific knowledge about a pension scheme.
- b. The difficulty of assessing the quality of actuarial advice about long-term outcomes in the short-term
- c. The joint or parallel provision of a range of different services (sometimes referred to as full service appointments)

43 It would seem though that these could be actually positive features in the establishment of client relationships rather than negative be seen as barriers to consideration being given to change of adviser relationships.

44 In viewing the conclusions reached, that although for most pension schemes there is a substantial choice of alternative providers of actuarial services available in the market, specific concerns remain about the effectiveness of oversight on the actuarial advice provided, on account of limited market testing, lack of widespread scrutiny, the extent of expertise amongst users, insufficiently transparent advice, the extent of joint provision of related but distinct services and the scope for conflicts of interest impinging on the work of scheme actuaries, a point for wonder could be how extensive are expressions of concern, whether some measure could be placed to provide ground for the sort of review that has been taken up. An exercise undertaken on the basis of exaggerated apprehensions could lead to demoralisation and a loss of professional integrity as against any corrective measures proposed. In so far as conflicts of interest arising in the work of a scheme actuary are concerned, the professional code is clear on what an actuary should do when the potential for conflicts exists.

45 In regard to life insurance, the conclusion is that much of the actuarial advice to the life offices is provided by in- house actuaries and, in the absence of any

form of market testing, such advice can only be scrutinised using either internal audit or peer review processes. In so far as external consultants provide advice, it appears that Life insurers have a reasonable choice of provider. A further conclusion is that competitive pressures seem to be reasonably strong.

46 Does this sort of analysis make a fetish of competition, is what would be a matter for wonder!

47 As regards general insurance the conclusions seem to be more positive in that actuarial services to general insurers appear to be reasonably competitive and although the choice of provider is somewhat more constrained most contracts are subject to procurement practices the understanding gap between advice provider and user is addressed by the larger insurers through rigorous application of informal peer review practices.

48 Having so concluded it could seem to be carrying things too far to remark that it is not clear in the case of smaller insurers how widespread the practices are and how rigorously actuarial advice is scrutinised and challenged.

49 While summarising the issues, a series of optional courses of action is proposed to which we provide responses.

50 Options for increasing competition

The two options provided here are not really alternatives. We would go along with a cap being placed on liability claim, such as would enable indemnity insurance to be more readily available to practicing actuaries. We are not for necessary unbundling of the provision of actuarial advice in the pensions area merely on the ground that it would open the market up for greater competition; if the bundled arrangement - a full service appointment - is provided in limited cases, it is out of choice.

51 Options for increasing market testing

(a) Greater scrutiny of performance

Here again the four options listed are not mutually exclusive. We would however not favour options (2) and (3) which call for reviews and measurement of the performance of actuaries, bringing in necessarily an external authority and setting of measures which might be constrictive of the exercise of professional judgment as should underlie any advice provided. Market forces on which so much store is set should suffice.

(b) Improving user understanding

The three options spelt out are not again mutually exclusive and all three could be followed, though in so responding we believe what option (1) proposes is to make users of actuarial advice better informed about what the actuary is actually doing and does not question the actuary's own knowledge and expertise.

(c) Improving clarity of advice

As has been noted, the Profession is pursuing option (2) on setting high requirements in regard to an actuary's initial training and in subsequent professional development. To the extent that users of actuarial services do question or challenge the advice they receive, option (1) is always available. We believe option (3) is selectively followed, without its being made a mandatory requirement. Option (4) could again be pursued if any changes in regulatory requirement would make an actuary's work sufficiently less complex as to enable the user to have a clearer understanding of the actuary's work.

Chapter 3 The Profession and regulations

52 There are some words of appreciation on how the Profession in the UK has functioned. However, as consultation feed back, areas of weakness are listed which, we strongly believe, are themselves rather weakly spelt out.

53 On self–regulation, we concur with what the Profession’s response has been and we do not see an inevitability in a conflict of interest arising between the Profession’s roles of representing its members and regulating them in public interest, as is reportedly the view of ‘almost all respondents’. We have earlier expressed our view that a profession – particularly an established profession of long standing – should be largely left to regulate itself, if its integrity and effective performance is to be preserved. A profession exists to serve society, to meet specific needs, and can continue to find acceptance only if it is perceived to be acting in the interests of society, public interest. The Review has referred to criticisms on the actuarial profession in the UK but we are unable to appreciate that such individual expressions of differences over the Profession’s functioning constitute sufficiently strong ground to engage in any major overhaul, given again the general expressions of approval that have been provided for the Review. We do believe much of critical comment is based on inadequate understanding of what is being done by the Profession and the actuaries themselves individually.

54 Of three models discussed, the Review concludes that Model A, being largely self regulation, with whatever evolutionary changes the Profession adopts in a dynamic process of review, would remain questionable on whether it goes sufficiently to protect either the public interest or to engender sufficient public confidence. Discarding Model C calling for much greater statutory regulation the Review considers Model B (providing for independent oversight) as promising, in terms of combining self-regulation with greater accountability, and being closest to the models which appear to be most successful in similar professions such as accountancy and internationally, provided an appropriate oversight body can be found. The Profession’s reaction seems to be of an acceptance in principle, with the oversight being extended to cover actuarial firms besides individual actuaries.

55 Elsewhere though, the Review notes problems to have arisen with a similar exercise in the case of the medical profession, where it would seem the monitoring body, the General Medical Council, is constituted from within the profession. A suggestion made in respect of the actuarial profession is that the overseeing body be the Financial Reporting Council which provides oversight in the case of the accounting profession. However, even if the need for a monitoring body were to be acceptable for the actuarial profession, and given also the need for the actuarial and accounting professions to work together in coordination, having a common body to oversee the functioning of both professions could create problems for a healthy functioning in unison. **We in ASI, would therefore favour continued independent and self-regulatory functioning of the actuarial profession, although we do see mention in a latter chapter of possible synergies from such common oversight over actuaries and accountants.**

Chapters 4 Actuarial Roles

56 The Review notes that most respondents thought actuaries well equipped to perform their roles, with there being widespread agreement that the main value provided by actuaries comes from their specialist technical skills in making long term projections. The Review goes on to mention that respondents were less convinced that actuaries are uniquely placed to provide advice on asset allocation issues where investment professionals could also provide such advice. But then note has had to be taken that assets must be allocated in the light of clear understanding of liabilities which means that investment professionals must work closely with the actuaries.

57 In the management of insurance business or pensions there has to be a coordinated approach to liabilities getting built up from the operations and the assets that need to be held to ensure due discharge of the liabilities as they are expected to arise. The actuary, in taking a view, on both can seek to monitor the

expected cash flows, out and in, and bring about as good a match as the investment market would permit and importantly, perceive possible consequences from marketing proposals that could upset a matching arrangement from being made. It is difficult therefore to see why, in the matter of asset management the actuary is sought to be displaced because a specialist in investment management is considered as the better trained for that role, albeit that he has still to understand from the actuary what asset coverage could be required for the liabilities being taken on.

58 On certain reserved roles for actuaries the Review notes the concern of consumer groups that there be reservation for “professionals who have demonstrable competencies” and those of the regulators, who want security of knowing that someone “suitable” is carrying out the function. Regulators are therefore stated to welcome a recognised body determining relevant qualifications and monitoring whether they have been achieved; setting out standard both of technical expertise and conduct; and enforcing those standards if they are not adhered to. If eligibility for actuarial reserved roles were opened up to non-actuaries this would require an appropriate regulatory body to establish a new regime to identify those suitably qualified to carry out the duties involved in the reserved roles. One particular response is quoted that “a totally new framework for assessing the qualifications of individuals fulfilling those expert roles seems to be a disproportionate responsethe current statutory roles in Life Insurance and Pensions require the detailed training that actuaries undergo”

59 In its analysis, the Review reiterates its position, contained in the Executive Summary, that in the short term it accepts that in pensions and life insurance there is an ongoing need to reserve the roles to actuaries. In support it notes the criticality of a proper assessment and treatment of long- term liabilities, the core that this forms in actuarial training and expertise and the lack of focus by any other academic or professional training. However, it does believe that some aspects of accounting, finance and economics are relevant and non-actuaries

with training in these fields may come to acquire sufficient expertise to carry out such work. Strangely, in charging the actuaries with being insular, it denies corresponding acquisition by actuaries of relevant skills and expertise in the areas of accounts, finance or economic in the course of their training as actuaries.

60 In regard to general insurance the Review notes developments in other jurisdictions in providing a reserved role for actuaries in reserving and refers to some fresh thinking by the FSA in that direction. It goes on to propose options on what could possibly be considered.

61 Having regard to the developments noted, option (1) on continuing with the status quo (no reserved role) could need to be discarded. Option (2) on reserved role for certification of reserves goes on to propose that such reservation be for actuaries or others with appropriate skills; this raises the question of an arrangement having to be in place to lay down who such other appropriately skilled persons would be and how their performance is to be monitored and regulated. Option (3) goes on to propose a full reserved role for actuaries which would extend to public interest duties and whistle –blowing responsibilities. This could be akin to the roles that Appointed Actuaries were to play in the insurance companies, in regard to which following Lord Penrose or otherwise there has been rethinking in FSA, but could still seem the best option. Option 4 sidesteps the issue of how the basic reserving is done and brings in an actuary- a reviewing actuary – to help the auditor understand the proposed reserve provisions- and does not recommend itself unless, as in the case of life insurance companies, there is a reserved role for actuaries on whose recommendations, the auditor would take actuarial assistance to carry out his scrutiny.

62 We have no views to offer on a number of other reserved roles considered in the Review.

Chapter 5 The Public Interest and Accountably

63 The reliance that regulators place on actuaries in carrying out their duties to protect the public interest is stated to be based inter-alia on the reports that the actuaries send, one set on a regular basis as a routine requirement and the other being reports specially made, and generally directly to the regulator when things so wrong – to ‘below the whistle’.

64 On whistle blowing as a responsibility, the feedback is stated to be that most actuarial firms and institutional users felt that there are appropriate or more than appropriate legal and professional duties and safeguards for whistle-blowers and that there is on the whole an appropriate level of disclosure by actuaries to protect the public interest.

65 The Profession and others are reported however to have pointed out that whatever the legal position, whistle-blowers still face the threat of some form of back lash from those reported to the regulator.

66 The Review concludes that the requirements on actuaries to report breaches or suspected breaches of proper practice to regulators are in principle quite severe and actuaries have an incentive to report matters if they think they will be held responsible for failing to do so. They also face obstacles: duties of confidentiality. They to their clients and to third parties, concern about damage to their relationship with their client or with their employer and concern about damage to their reputation, with their peers, and colleagues, prospective clients and prospective employers.

67 Making whistle-blowing compulsory for actuaries in particular circumstances removes some of the associated drawbacks. On the other hand imposing too many reporting duties on actuaries undermines their commercial usefulness to their clients, can leave them isolated and can undermine the reporting responsibilities of senior management and trustees.

68 Although there are considerable safeguards for actuaries who whistle-blow, it seems that there is still some doubt among many actuaries about the circumstances in which whistle-blowing may, or should occur. This is partly because of a perceived lack of comprehensive guidance and partly because of an inconsistency seen in the way whistle blowing obligations and protections are expressed for actuaries performing different functions.

Options for reporting and whistle-blowing

69 Three courses of action are proposed but they are again not exclusive, with the adoption of one option precluding action under the others. Steps would seem to be needed in all three directions, (a) to make for more comprehensive guidance from the Profession and the regulators on circumstances in which whistle-blowing is permitted and when it is required, (b) ensuring that, on the one hand, legal protections for whistle-blowing are wide and give appropriate room for individual judgment based on good faith and, on the other hand, duties to whistle-blow are clear, objective and enforceable, and (c) extending the terms covering auditors to actuaries also in the matter of whistle-blowing, extending the availability of privileges and reliefs.

70 On the actuarial profession's role in protecting the public interest, the Review in its concluding analysis mentions two extreme views that could be taken and goes on to view the current situation as less clear-cut than either of the extremes. It notes that regulators in their duties to protect the interest of consumers and scheme members have placed specific whistle blowing requirements on the quarter of all actuaries who hold reserved roles. The Profession on its hand sets standards and places a duty on all of its members to adhere to these standards. There is specifically an obligation to serve the public interest. Collectively, the Profession advises or lobbies the regulators and the Government who have a direct duty to protect the public interest. There is thus,

currently, a mix of statutory and self-regulation aimed at protecting the public interest.

71 On the adequacy and effectiveness of this division of responsibilities the Review considers the single most important issue is that of an appropriate standard setting mechanism. However, on the consultation feedback that was received about a stronger overriding public interest duty placed on their members by some overseas actuarial professions, specially in Canada, it would seem that the Professional Conduct Standard of the U.K. profession requires no less of its members, even if the point is put in perhaps fewer words.

72 On standard setting, we do need to state here, as a strongly held view, that a professional is most valued for his judgmental abilities, given of course that skills and knowledge are possessed by him in the area of his activity - it is not merely for technical mastery. If he is required to perform to certain standards considered necessary to provide a degree of direction to how he proceeds, in the interests of the users of his services, any guidelines laid down cannot envisage all possible situations which the professional could face – more so in the case of an actuary required to advise in relation to an uncertain future – and can only be relatively broadly spelt out, leaving to the profession's also judgment how he copes in varying circumstances while yet keeping within the broadly specified guidelines. Any set of standards that constrict the professional's use of his judgment would not generally make for the best of services being available. A balance – a delicate one perhaps – has to be struck therefore in standard setting as it should apply to professional work.

73 Harking back here to Lord Penrose's criticism made much of in regard to a looseness of standard in relation to policyholders' reasonable expectations, it would bear to recall that the phrase or the concept has not permitted of any very specific definition, applicable in all possible circumstances and capable of being similarly understood, and in its elusiveness has even raised the

question what Parliament's reasonable expectations were when the particular requirement to take PRE into account was legislated on.

74 Actuaries as professionals are accountable as any other professionals in their respective areas of activity and need be no more so in principle. It is difficult therefore to understand the issue made of it. The Review in its analysis notes that there is significant confusion about the issue of accountability for actuaries and that the general frame work with which multiple lines of accountability would seem to arise needs to be made clear. In particular whistle-blowing obligations precedents protections and incentives are stated to need being made clear and embodied. In regulatory provisions which the Profession's code reinforces. The question again is why the actuarial profession, one of such long standing and of such importance in society, is considered to need such singled-out scrutiny, not necessarily bestowed on other professions. Is it indeed called for?

75 The Review goes on to consider the insurance and pension fields as regulatory changes are taking place and poses sets of options on what could further need to be done. We go straight to responding here to these.

76 Options for the Actuarial Function Holder

The need for greater protection for whistle blowers has been recognised, and if in the new set up the Actuarial Functions Actuary has largely the role that the Appointed Actuary had earlier, he would need greater protections than seem to be available in the FSA dispensation.

Options for the With Profits Actuary

77 We do not so along with the view that if the With Profits Actuary is internal to the insurer it may be difficult for him or her to give advice that customers have not been treated fairly. The role of the Actuarial Function Holder is onerous too but it is not suggested that the role be performed by some one external to the

insurer. Given adequate protections, the holders of these two actuarial positions can be expected to perform adequately from within.

78 Secondly, unlike the Reviewing Actuary who reports to the auditors, the actuarial work for developing the reports to the management and in turn to the regulators, be it on the overall financial position of the company or on the fair treatment of with profit policyholders, has to be done from their side to ensure that there is, degree of shared responsibility on actions taken.

79 We do not agree with option 2 on the With Profits Actuary being external to the insurer. We do not see the need again for the selection of the With Profits Actuary being taken a way from the management, to be given to Broad Audit Committee or another body external to the executive management.

80 We do also believe that the transparency and fairness of the recommendations of the With Profits Actuary brought out in the report in detail filed with the regulators should be sufficient, without individual policyholder concurrence as it were being sought by providing them with copies of the actuary's report.

81 Options for the Reviewing Actuary

We would suggest staying with the base FSA decision (option). With a peer review likely to be introduced in addition, an independent view of the Actuarial Function Holder's reporting should be available to Board. Again, there and be some conflict of interest if the Reviewing Actuary were to report additionally to any one other than the auditor under what could be a directed focus of his review. We would not also enlarge the Reviewing Actuary's role to include whistle-blowing on his own.

Options for pensions

82 Here, we do not see any difficulty with decisions being covered by the first three options i.e. with the scheme actuary himself or the trustees considering that the potential for conflicts of interest was such as to require separation of advice to the trustees and to the sponsor, and again in specific circumstances when mergers/ acquisitions take place or winding, up has to be considered. There need be no compulsorily separated roles in the matter of actuarial advice to the trustees and to the sponsor.

83 In regard to the majority of actuaries not performing received roles the Review sees difficulty in extending whistle-blowing responsibility (and protection) to actuaries generally and notes that under the Profession Conduct Standard applying to them, they could need to report to the Profession in certain circumstances. However, the Review does feel that there could be need for whistle blowing in certain areas because of the roles (though not reserved) being critical to the economic well being of the community. The view is that whistle blowing duties be placed on the particular role-holders rather than on actuaries alone.

Chapter 6 Education and continuing professional development

84 The consultation feedback that the review has received does not seem to call for any major intervention in the process that is being followed in the U.K. for entry into the actuarial profession. The scope and extent of education and training has evolved and developed over time as need was perceived to have arisen, and does provide for alternative avenues for those who could afford to go through full time study in relation to grounding areas of knowledge and to others who, for whatever reason, would undertake part time study in actual employment. Historically, as has been noted by the review, the course content of the Profession's requirements to qualify through its own examinations or partly

through University education, has enlarged and widened to cover knowledge and skills from other disciplines, in particular financial economics.

85 We go on therefore to responding to the optional courses of action that the Review has set out, ranging in the degree of intervention seen to be needed, and while doing so we do note the Review's own perceptions of the extent of changes required to be brought about.

Syllabus development

86 We do not see the need for an independent body to be brought in to provide oversight on what the Profession does in the area. What has been described in regard to POBA in the relation to accountancy profession does not seem to suggest that any significant difference would come about with an overseeing body set up. We would leave to the Profession to respond on such minor reforms in governance structure as might be needed to promote greater academic and non actuarial inputs.

Examination process

87 The Review itself notes that options (2) and (3) spelt out would involve added costs. The need for an independent oversight body in exam setting and marking, as making for greater credibility, is not made out, and as has been noted, there are university studies available for a good part of the examination syllabus, where indeed full time dedicated professional examiners are involved. We believe that essentially there has to be self-regulation in the examination area as well.

Broadening of actuarial education provision

88 We do not believe a fast track course, be it after graduation, would adequately meet the educational needs of an actuary. The widening of the provision for accreditation of university degrees could certainly bring about an increase in the number qualifying as actuaries but the Profession would need to be satisfied with regard to a correspondence of standards wherever an extension of the arrangement is to be considered. In principle we are agreed on the relief it could mean in the strain otherwise on the professional body and the widening thereby of avenues for study to become an actuary.

CPD

89 In as much as the PCS requires of actuaries that they do not undertake to provide any advice or service unless they are confident about their competence to do so, any requirement on a continuing process of professional development has to be much more by way of aiding such development to take place rather than to mandate on it. We believe this is how the Profession is guided in the stipulations still made in regard to CPD, by way of setting broad guidelines, as the Review perceives. Our own responses to the alternative courses proposed are so made.

90 As has been remarked, the options are not mutually exclusive and we would go along with what has been suggested under options (1), (2), and (3). We are not for an independent oversight body as option (4) would propose but we do see need for CPD for all actuaries, including the larger number in non-reserved roles. In ASI we have ourselves been thinking on those lines and believe the Profession is contemplating some form of recurring certification for all actuaries, in whatever rigour differentiated, as also concomitantly CPD requirements to go therewith.

91 We what cot the Review considers about the Profession's proposals on extension of the need to hotel practicing certificate and the enlargement of CPD

requirements. On the options placed for responding to, we would go along with option 2 which goes beyond the Profession's proposals on extension of the arrangement to those volunteering to be covered, to include all actuaries. We would not have an external body brought in for oversight.

Chapter 7 Standard setting

92 The consultation feedback reported on does not necessarily indicate a serious short coming in the present practice of the Profession in developing Guidance Notes.

93 The views reported on have been varied and the degree of weight to be attached to one or another set could well seem subjective. On the criticism by Lord Penrose, the views had again been varied and when the Profession's response is just that the criticism was accepted, It would be taken that any refutations generally or of specific faulting, was possibly felt as might have been seen as unseemly unprofessional.

94 We note what has been said about profession's proposal to set up an Actuarial Standards Board and on the patterns followed in some other countries in the matter of setting of professional standards. The arrangement in the USA does not particularly suggest any independent of the actuarial profession and merely reflects the existence of a number of bodies within the profession. The joint activities in the UK of the Institute and the Faculty, when undertaken as is proposed on the setting up of the Actuarial Standards Board could well be seen as a similar exercise.

95 We believe very strongly that any take-over by way of statutory prescription would be deleterious as being constrictive on the exercise of judgment by actuaries what in fact should be most valued in an actuary's make-up-and making them largely compliance oriented based on the word, without full application to provide the best of advice.

96 Coming to the options noted, we would definitely be for the Profession being allowed to proceed in the manner it has started doing. We would not suggest any oversight being added to the working of the proposed Actuarial standards Board such as be the Financial Reporting Council (FRC), despite the synergy that the Review sees in a joint oversight by the FRC over the actuarial and accounting professions.

Chapter 8

97 We must start by expressing disquiet over statements like “The profession has no formal body providing regular practice scrutiny of the work of actuaries“ and “There is a clear need for systematic and proper scrutiny of the work of actuaries performing reserved roles, particularly in the light of the lack of expertise of users and the limited exercise of choice”. Would such statements be made, generally, in respect of other professions, when users of services or advice are similarly unexpert?. In the cases where they have sought out the professional advice, does every professional need to have his work checked on by another profession or be subject to oversight by an independent scrutiny body? Would a review system by a peer or otherwise necessarily bring out the best in a professional. Is a definite shift to be seen as taking place by professionals and businesses too or is it a selective process with some professions having to consider themselves as more “favoured” by the attention they receive

98 We have little more to say having noted the line on which the profession is proceeding, except to remark on what the FCA is quoted to have said “actuarial functions [are] more clearly advisory functions which by definition, expose them to review and challenge by decision takers”. Getting back to options that have been posed in the area of Life insurance, we would reiterate what we have noted earlier that the Reviewing Actuary’s note should be limited to advising the Auditor. We do note ofcourse the professions views on the possible duality of the roles to perform even review as well, as also the reasons given for those views.

99 In the pensions areas we have seen that feed back received by the Review , the views it holds on what the profession is proposing to do. We would not suggest doing anything mote than what the Profession is working on, which means that of the four options spelt out , we would stay with option (3), though we do envisage difficulties having to be got over in the peer review being effectively brought about. Our response is based on consideration that we have ourselves been giving to setting a review system on the work of actuaries and we have some apprehensions to deal with in the pensioners area.

100 In the area of general insurance the IRDA regulations in India provides for a position of Appointed Actuary in general insurance companies, although as of now, the regulations only require certification of the reserves for IBNR claims by the Appointed Actuary. From Actuarial Society of India, we had gone ahead to bring out a guidance note to cover the larger role that AA could eventually be playing.

101 In this background we refrain from providing any response to the Review on the issues issued by it in the UK context.

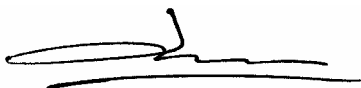
102 On the question of the new system put in place by the UK actuarial profession, there are views on whether the experience with operation of the new system should first be reviewed before any review of the kind under way is considered or that in some directions move needs to be done right away. A point for note here is that where Lord Penrose had been critical in his report with respect to the very smallness of cases that were proceeded with over a period of several years and there being no provision for proactive steps he had noted in his subsequent opinion to the Treasury Select Committed that the UK Actuarial profession had adopted quite an extreme approach.

103 We note that the Review itself would have a body overseeing the work of disciplinary system and that this could be the body which is suggested for providing oversight to standards setting by the Actuarial Standards Board.

104 We have expressed our view against the need for oversight in relation to the proposed Actuarial Standards Board and equally see no need in the case of disciplinary actions taken. We note again here the view that FRC could be the overseeing body.

105 As earlier indicated, we are not reacting to the sections relating to the Government Actuary's Department.

106 We could perhaps have been made reserved in some of our reactions, particularly if we are seen as not being directly concerned with decisions affecting the practice of actuaries in the UK. While the observer status is what we have fallen back on when not offering responses, we are affected when the premier profession which has been the progenitor of the actuarial profession in other English speaking jurisdictions as in India, and to which we in ASI are particularly beholden, comes under severe scrutiny. Decisions taken in relation to the Profession in the UK could have repercussions for us, not the least in indicating areas where changes are made which could form precedents for or undercurrents to consider similar action.



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04 02 2004