

Morris Review of the Actuarial Profession

AVIVA response to Interim Assessment

Overview

The general thrust of the interim assessment was there was a need for much greater discipline and formality in many of the activities undertaken and we have some sympathy with these views.

As ever, communication is one of the key issues and we agree many of the topics covered would have seen considerable improvement over the years if there had been much better presentation and understanding of the issues. This is from both the actuary and the user's viewpoint.

Use of Actuaries

The report covered, among other things, the role of companies using actuarial services and the role and requirements of actuaries and it is important they are not blurred into one message. For the former, corporate and commercial aspects will come into play, whereas for the latter it is the professional aspects that are worthy of investigation.

Companies have a responsibility to their customers, and their shareholders, to take the most appropriate action. We would expect them to fully assess the commercial and practical aspects of whether to employ actuaries or other experienced professionals to undertake various roles and whether to use a bundled or unbundled service from providers. In our experience, actuaries may provide a range of services in response to employer demand. There are a range of providers of actuarial services and sufficient competition to ensure that there is no requirement to contract for services on a "bundled" basis.

In the current economic climate companies are going to be looking at whether they have the right person for the job rather than employing actuaries to do a particular job because one has done it in the past. Actuaries are expensive and would not be used regardless. At AVIVA we employ actuaries in a number of wider roles because we believe they are capable of fulfilling that role and it is of benefit to the company. In many cases their actuarial qualification is an aid in this but it is by no means the only factor. Overriding this we do believe that some roles should remain reserved for actuaries.

Accountability

Another key aspect is what public interest role is an actuary charged with and does this depend upon whether they are filling a reserved role or not. This is a difficult area but we agree one that must be addressed.

The actuarial profession is a distinct profession that should in the main set its own standards but we agree that this should be done in an objective way that avoids any claims of overly self-interest. To be consistent we can see merit in the approach being broadly in line with other professions, e.g. accountants, lawyers.

Thus we think the preferred route for regulation of the profession is Model B – the profession's self-regulation with independent oversight. We think this could be by a

development of the FRC. We believe it is important that the body providing oversight has the right constitution and membership to provide appropriate governance of the actuarial profession; we do not believe it should simply be a subset of the independent accounting body.

The cost of this additional governance and where it would be met must be taken into account bearing in mind the size of the profession.

As a company we have internal risk and governance procedures for the business as a whole, as well as internal and external auditors and regulatory requirements and we would expect this to be the norm.

Education

Actuarial work contains a substantial amount of mathematics and it is understandable that mathematics graduates provide the majority of entrants to the profession. Diversity in any profession is a plus and entrants with other degrees should be welcomed though not to the extent of positive discrimination.

As a company we look for entrants to have an A level in Mathematics and indicate a mathematical discipline at degree level would assist. We have taken on, and will continue to take on, entrants with a variety of different degrees.

The syllabus must be kept relevant without too much upheaval for existing students in any transitory period. The profession has just undergone a major revision and we consider this must be given the opportunity to now establish itself, with ongoing refinements as necessary, with no major change for a number of years.

We think some of the advantages of students doing their studying whilst working has been underplayed. It must be remembered the education material is independent to their company and we would expect students to question any marked difference in approach between the education material and company practice. When they do qualify by this route the already acquired business experience is a definite advantage to both them and their employer. Many students welcome the approach of being paid while studying. We do accept there is an advantage in having a number of routes to qualification and the diversification this brings can also be of benefit.

There is an expectation that a person who passes all the examinations merits the salary of a fully qualified actuary irrespective of whether they have any business experience or not. If actuarial degree courses are extended then we consider salary scales may need looking at more.

If there were to be a switch to graduates with more actuarial qualifications there would be a transitional period in that we would bear in mind our existing trainees and when they are likely to qualify.

It would be useful for companies to look at how they could work with universities in a number of ways to achieve a wider approach in actuarial education. We currently sponsor a role at York University which we consider beneficial to all parties for a number of reasons such as knowledge sharing.

CPD

We do have some reservations about the thoroughness of the current CPD arrangements and agree it would be sensible to enhance the requirements and put them on a more formal footing for all actuaries working as actuaries.

It would also be beneficial to have more formal monitoring of CPD.

There are a variety of ways of achieving CPD and as a company we would look to support our actuaries and ensure the opportunities are available in a cost effective manner.

In passing, the report raises a dichotomy in that it proposes non-actuaries should be used more but that actuaries should have more standards. The actuarial standards would not have any remit over non-actuaries doing work along side actuaries.

One of the challenges raised in the Morris Report has been the relative slowness of the actuarial profession to adopt new techniques. We believe that this is a fair challenge. We believe that there needs to a greater investment in applied research, i.e. investigating new academic techniques and their application to the practical real world problems of insurance, pensions and investment. The Actuarial Profession might seek to play a greater role in seeking support and funding for such work from employers, state and the voluntary sector. Individual actuaries might be encouraged to undertake this work through funded "research sabbaticals".

Addressing your specific options:

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.

The cost of PI cover is determined by market forces and the level of PI cover required is determined by the recipients of actuarial advice (i.e. market forces) It does not seem appropriate to interfere with market-driven costs and levels of PI cover.

We believe there is sufficient competition for the provision of actuarial services and it is the responsibility of a company/trustees whether it is looking for bundled or unbundled services.

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.

It is important that the service provided is clearly understood and there is an onus on both parties to improve this. A number of these requirements are “soft” skills and improvement of these shouldn’t lie purely within an actuarial context.

We would expect there to be regular assessment of the quality of everyone’s work, including actuaries, which is line with option 3.

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.

There is a responsibility on users of actuarial services to ensure that they have access to the appropriate skills to review and challenge the work of actuaries. We believe that this could lead to more roles for individuals with an actuarial skill set as independent directors on company boards.

We have no issue with any of the suggestions and understand all are current available options

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 think option 3 carries most merit. Communication is a two way event and would caution against the view that if the actuary provides the “right” information all will be well. We must ensure the actuary clearly addresses the risk aspect of any figures and there is then an onus on the recipient to act accordingly.

Reserved role in general insurance

Options

- Option 1: continue with the status quo – no reserved role; or
- Option 2: no reserved role, but require certification of the reserves by an approved person with appropriate skills, who may or may not be an actuary; or
- Option 3: a full role reserved to actuaries, with associated public interest duties and whistle-blowing requirements; and/or
- Option 4: a requirement that the auditor take appropriate actuarial advice when auditing general insurers (a role akin to the Reviewing Actuary role for life insurers).

We consider options 1 or 4 the most appropriate.

As an observation, the company environment is profoundly different from the

Lloyd's environment, so we see no inconsistency in maintaining a reserved role inside Lloyd's but not outside.

We suspect Option 2 would invariably result in an actuary certifying reserves which would be a de facto reserved role.

Option 4 represents the status quo: we expect every auditor takes actuarial advice, usually from their in-house actuarial team, when auditing a general insurer.

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.

The Board and actuaries in reserved roles all have regulatory responsibilities and we would expect there to be solid governance procedures around that. Above that we can see merit in additional guidance being available to provide greater clarity and consider option 1 appropriate.

A major issue here is what is the public interest element for actuaries holding non reserved roles. Their prime responsibility is to their client and employer but this does not prevent the need for an actuary to raise with their employer or the profession any items of concern.

Actuarial Function Holder

Options

- Option 1: status quo – Actuarial Function Holder role as currently specified by the FSA; or
- Option 2: greater protections for whistle-blowers.

We consider option 1 the more appropriate.

With-Profits Actuary

Options

- Option 1: status quo – With-Profits Actuary role as currently specified by the FSA; or
- Option 2: the With-Profits Actuary should be external to the insurer; or
- Option 3: the With-Profits Actuary should be appointed by the With-Profits Committee, if one exists, or otherwise the Audit Committee; and/or
- Option 4: the With-Profits Actuary makes a full report to the regulator. Policyholders receive a copy of the With-Profits Actuary's opinion and have access to the full report.

The With Profits Actuary works in the context of advising the Board, the majority of whom are not actuaries and there being additional independent oversight of discretionary items. Fundamentally it is the Board who make the decision. The With Profits Actuary also reports to the FSA. We do not see the need for the With Profits Actuary to have to direct involvement with the policyholders. We do not consider

therefore whether the With Profits Actuary is external or not is of particular concern. We agree some aspects of the With Profits Actuary are not wholly actuarial but the majority are and we consider it is most appropriately viewed as a reserved role filled by an actuary. As such option 1 appears satisfactory

Reviewing Actuary

Options

- Option 1: status quo – Reviewing Actuary role as currently specified by FSA, with the Reviewing Actuary reporting privately to the auditor; or
- Option 2: Reviewing Actuary role as currently specified by FSA, with additional duty to provide a private management letter to the Board on the Actuarial Function Holder's compliance with professional guidance; and/or
- Option 3: Reviewing Actuary to have direct whistle-blowing duties.

We consider option 1 provides sufficient governance

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.

We consider the Scheme Actuary's responsibility is primarily to the Trustee. If there is no conflict then it is acceptable for them to be also involved with the Scheme Sponsor. Thus options 1 and 2 should both be considered.

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).

We consider there is a need for the provision of an independent body to provide oversight. We consider this will address issues of self interest and place the profession on a more objective footing. We would also welcome the promotion of more academic and non-actuarial input.

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.

In line with the above we consider option 3 will be of benefit.

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.

We have no objections to either of the above options as alternatives to the current approach rather than instead of. We consider having a variety of approaches to qualification does have merits. We do have some concerns over the short term salary expectations and practical work experience of those qualifying purely by an academic route.

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 consider option 1 is the most appropriate. We encourage and expect actuaries to maintain their CPD as there is an overriding need for them to remain up to date. We consider the Current Issues Seminars and Annual Conferences are of the right nature but should be supplemented as required, including non professional areas. In addition we can see merit in some aspects of option 3 to ensure wider fields are addressed.

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.

We consider option 1 is the preferred route and the most practical.

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 consider option 2 to be most appropriate. We would have no difficulty with it being a development of the FRC so long as this was extended and redefined to cover its wider remit. We would not want it to be a subset of the existing FRC.

Scrutiny of actuaries in life insurance

Options

- Option 1: Reviewing Actuary as currently specified by the FSA, with no mandatory peer review as proposed by the Profession; or
- Option 2: Reviewing Actuary as currently specified by the FSA, and peer review as proposed by the Profession; or
- Option 3: Reviewing Actuary's remit is expanded to include an explicit duty to report on compliance with actuarial standards; or
- Option 4: Reviewing Actuary as currently specified by the FSA, with additional duty to provide a peer review letter to the Actuarial Function Holder and/or the Board.

We consider option 1 is sufficient in view of the other checks that would be done.

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.

Option 3 would seem appropriate

Scrutiny of actuaries in general insurance

Options (for the company market)

- Option 1: introduction of requirement for actuarial advice as part of audit; and/or
- Option 2: introduction of peer review.

Option 1 seems most appropriate, particularly if there remains no statutory, or reserved, role for general insurance actuaries in companies.

AVIVA has comprehensive internal review and governance procedures involving personnel from many areas, as well as external auditors. It is difficult to see what extra value an additional peer review might offer.

The most valuable type of review is by non-actuaries - a non-peer review.

The new FSA regime requires actuaries to spell out the main assumptions, risks and uncertainties in their work (largely to non-actuaries), along with every other professional with a significant role within the company. Going forwards this will lead to insurers having a very transparent review of actuarial work by non-peers; this will also be very visible to the FSA who can intervene (or simply require higher capital) should they see inadequate levels of actuarial review and governance. Our perception, certainly in the company market, is that the new FSA regime is already leading to formalisation of a healthy degree of challenge and scrutiny.

Options (for Lloyd's)

- Option 1: if the Statement of Actuarial Opinion is produced internally then it must be externally peer reviewed; or
- Option 2: introduction of external peer review of the work of all Syndicate Actuaries; and/or
- Option 3: introduction of a requirement for actuarial advice as part of audit.

Option 3 would seem appropriate.

Option 1 seems iniquitous between external actuaries and in-house actuaries and might undermine the use of in-house actuaries. Should peer review be deemed necessary, the internal "peer review" by, say, one consultant of a colleague's work in the same consultancy, seems no more worthy of exemption from the requirement of external peer review than an internal "peer review" between two in-house actuaries. In fact the adoption of "house" assumptions, or methodologies, may render an in-house "peer review" by consultancies of limited value.

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.

In line with the need for an objective oversight in many areas, we consider option 2 would be most appropriate