



Institute of Actuaries of Australia

Response to Interim Assessment Morris Review of the Actuarial Profession

1. Introduction

The Institute of Actuaries of Australia (Institute) and its members have followed the process of the Morris Review of the Actuarial Profession (Review) with interest.

Although working predominantly in Australia, many of this Institute's members have experience in the conditions of the United Kingdom and the broader Asian markets. As a result of this broad and different perspective, the Institute believes it can bring added insights to many issues raised by the Review, upon which the Institute and its members have experience.

The Institute recognises the necessity for continual review of the quality of actuarial advice; the effectiveness of its delivery; and its usefulness and value to society and the economy at large. This is a process that is necessary not only in the aftermath of major failures of regulated financial institutions, but for the purpose of preventing such failures.

In the recent past, the Institute has worked in close co-operation with the regulators and supervisors of financial institutions to develop such standards, - in life insurance, superannuation, general insurance, and health insurance.

Since the early 1990's, the Institute has worked closely with accounting standard-setters, including the IASC/IASB, and has considerable experience (since 1995) of working closely with an independent statutory Life Insurance Actuarial Standards Board which is a key part of the Australian regulatory framework.

Like many actuarial bodies worldwide, the Institute conducts education and Continuing Professional Development (CPD) activities in areas well beyond the statutory roles reserved for its members in Australia. In addition, the Institute's Constitution (including Disciplinary Scheme), Professional Standards and Code of Conduct govern the activities of all its members worldwide.

The Institute has a long history of collaboration with universities in education and research, and recognises the valuable inputs from universities into the development of actuarial science globally.

We therefore welcome this opportunity to submit comments on the Interim Assessment, and hope that our views and insights will be valuable in the continuing Review process.

2. Sequence of Comments

There are a few observations that reflect on the overall direction of the Review's Interim Assessment, which we cover first, in the Overview section below.

We then make comments in relation to the Executive Summary.

In later sections, we follow the sequence of the chapters of the Interim Assessment and include comments on the Options put forward in Chapter 2.

3. Overview

3.1 Global Developments and the UK actuarial profession

Given that the scope of the Review is focussed on UK issues and practices, the Interim Assessment understandably reflects on the issues in a domestic context.

However, the actuarial profession is increasingly a global one. The Institute believes that the solutions that are ultimately adopted, while recognising the UK situation and dealing with those domestic issues, should also recognise the global nature of the profession, including the competitive position of the UK profession internationally.

It is notable that bodies such as the IAIS recommend the continued and deepening involvement of actuaries in insurance enterprises, and there is a reasonable implication that in due course this can be expected to become the world norm.

In our view it would be useful to bear in mind the international context (for instance, the growing involvement of actuaries in general insurance globally) when considering what measures are appropriate for the UK regulatory framework for insurance entities and the role of actuaries in it.

The Institute supports comments in paragraph 4 of the Executive Summary in praise of the “overwhelming majority of actuaries in the UK” and hopes that their contribution will be recognised, and the development of their profession supported into the future by the Review, in the public and the national interest.

3.2 Assets and Actuarial Work

It is surprising to find that the Interim Assessment positions actuarial skills and advice so narrowly on the liabilities side of the balance sheet (“... the defining feature of virtually all actuarial work ...”, para. 4).

That may be one defining feature, but it is a fact that actuaries in the UK and elsewhere have been, for many years, in the forefront of the development of objective methods for the scientific valuation of financial assets, liabilities, and entities; stockmarket analysis; asset modelling; performance measurement and asset-liability management (see below).

All actuaries are trained in investments, as a necessity in preparation for advising financial institutions (and individuals) on the appropriateness of investment policy to the liabilities.

It may be that, in the cases under review, this did not ensure timely delivery of reliable advice, but that does not negate the existence or usefulness of the skills or the training. They are not uniquely actuarial, but asset skills are fundamental to the profession, on a continuing basis.

By way of illustration, we understand that when the FSA urgently needed advice on its recently-implemented plans to introduce a “realistic balance sheet” approach in the life insurance industry, the industry turned to consulting actuaries for help in developing practical implementations of the FSA requirements. The profession provided this help through sophisticated models that replicated the behaviour and value of certain types of complex financial assets and derivatives as a basis for valuing the liabilities.

That this help was immediately and reliably available (and would have been so from several different firms) is a testament to the skills base that exists within the profession both in the UK and overseas.

As further illustration from the Australian environment, we would mention that (in common with the UK) the objectivity of actuarial investment performance analysis has been a major factor in the successful marketing of such services by actuarial firms. The reliability of this advice has made it a useful service in the public interest, in a competitive market place, with no statutory advantage to the profession.

3.3 Asset-Liability Management

This is another area of work where actuaries generally have considerable expertise, but which does not appear to be recognised in the Interim Assessment.

The insurance industry functions by pooling risk, so as to gain the advantage of diversification, and then retaining a controlled portion of the risk in its own balance sheet, together with sufficient capital to protect the company against all but the most disastrous of external events.

A relevant area of actuarial leadership has been in the development of scientific techniques for the simultaneous management of assets and liabilities, where the liabilities are affected by the assets (e.g. through bonus distributions). This has been a major objective of the development of asset models by the profession (e.g. Wilkie, Smith, Harris).

This relationship is two-way, and the understanding of how the assets affect the liabilities and how the liabilities affect investment policy, are crucial parts of the actuarial methodology for solvency control. This is reflected in the approaches of regulators and regulated entities worldwide. Particular illustrations of this can be seen in the approaches to balance-sheet resilience adopted both by the FSA and by APRA in Australia, and internationally by the IAIS.

The fact that this methodology failed to protect the Equitable from its ultimate fate appears to result from multiple breakdowns in execution, both internal and external to the Equitable.

This does not negate the need for actuarial involvement in asset-liability management, nor does it devalue the historical contribution of actuaries to the development of the techniques and their ongoing research activity – for instance, in the area of credit risk, economic valuation and risk management.

3.4 Regulatory Relationship

On the basis of the findings of the Penrose Inquiry, this Institute would not deny that there were shortcomings both in the profession and on the part of individuals within the profession. Both of these contributed to the problems of the Equitable, as did the activities of many others outside of both the profession and the Equitable.

In this context, it is important to ask whether the relationship between the profession and the regulator functioned optimally in the development of objective standards for prudential regulation.

No doubt the FSA will have made its views known to the Review, but it is worth considering that there are examples in Australia, and elsewhere, where a closer relationship at the level of methodology can give benefits going forward, though sadly it cannot change the past.

The most recent example in Australia was the close working relationship and intensive consultation between APRA and this Institute, in development of both the Standards for general insurance reporting, and the Professional Guidance that supports it. This echoed the process that accompanied the implementation of the new Life Insurance Act in 1995.

3.5 Presentation

The Executive Summary opens by summarising the critical findings of the Penrose Inquiry, and goes on to define a number of problems facing the UK profession.

It is natural that the focus of the Review is on the profession and its management. However, the Institute would observe that the resulting presentation may give an artificially negative view of the profession, given that the activities and accountabilities of others who were also involved are outside the scope of the Review.

In particular, it may not be clear to an outside observer what the profession was and was not accountable for. The final report of this Review will undoubtedly be a focus of international attention. Whereas the roles of company directors, trustees, and regulators are undoubtedly well-understood by the Review in the UK context, that may not be so elsewhere.

In this context, it would be regrettable if the wrong impression were to be given, to the governments of the many countries that are currently well-served by their actuarial professions and their appointed actuary regimes, that these problems are or were global.

It might also be particularly damaging to the institutions and economies of those countries where the actuarial profession is still being formed, and where few alternative sources of objective advice and analysis exist.

4. Executive Summary

4.1 Scope

The Institute takes the findings of the Penrose Report as a given, noting that this Review does not address the last-quoted criticism in paragraph 1, which is subject to separate review.

We also note that the Review has investigated three broad aspects of the actuarial profession in the UK:

- the market for actuarial services;
- the overall regulatory framework; and
- the future role of the Government Actuary and the GAD.

4.2 Overview

We note that the Interim Assessment identifies a number of “quite serious” problems faced by the profession in the UK, and will comment briefly on each in turn before more detailed comment in relation to the Options proposed.

Clearly some of the problems quoted are in the recipients' perception of actuarial advice, and some are, according to the Interim Assessment, real problems in its production and delivery. It is not always clear what views the Review has taken, although the distinction seems to be material in terms of commentary on solutions and the Options.

4.2.1. “... *the profession has been too insular, with insufficient contact with other professions and too narrow a professional training, and has been slow to adopt new approaches and techniques. This has resulted in useful inputs from the disciplines of economics, statistics and demography, to name only a few, having less impact than they should.*”

The Institute supports the broad thrust of the Review's interim conclusions, that any problems of insularity and consequent narrowness of viewpoint can be dealt with most effectively by broader selection criteria, and more diverse and effective initial and ongoing education (CPD) programs.

The Institute believes that the increased involvement of universities in the education of Australian actuaries has been a major advantage in broadening students' skill sets into many related areas, including economics, law, commerce and statistics.

The challenge remains (as for all professions globally) to test and maintain the level of professional competence expected in a practical environment from a fully qualified practitioner, in line with evolving knowledge and practice. The Institute believes that well-structured and closely-monitored CPD is a key mechanism for this purpose. Although the full scope of this goes beyond university capabilities, joint research is a key area for the development of actuaries, which should be encouraged.

4.2.2 “ ... *too much has been expected of actuaries and, explicitly or otherwise, too much has been promised by them. The future is inherently uncertain and a proper understanding of future risks, as analysed in actuarial work, can help people to cope with that uncertainty. However, it has repeatedly emerged that most of those involved have tended 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. Instead, clients have looked to actuaries to provide certainty, and actuaries have often appeared to provide it.*”

Just as the Review found in the UK, the Institute has experience of situations where the recipients of actuarial advice may have resisted the clear presentation of risks.

The Institute advocates a thorough disclosure of risks, in terms which can be clearly understood, to the recipients of all types of financial advice.

The Institute believes that this type of disclosure can be both defined and enforced to a fully acceptable standard, through professional guidance and standards issued by a professional body - but nevertheless believes in the value of independent input into the definition of those standards.

The Institute also believes that the quality of all advice is best supported by peer review, both technically and in terms of effectiveness of delivery of the advice.

4.2.3. “ ... *often repeated ... that there is insufficient transparency in actuarial advice. For quite some time, if less so recently, many have regarded actuarial advice as having the characteristics of ‘black box’ analysis with the methodology and calculations lying behind the outputs and even the input assumptions being quite opaque. The Profession is aware of this problem and is seeking to deal with the issue; but it remains a significant contextual factor in much of the review’s analysis.*”

The Institute supports the need for transparency of actuarial advice. The use of ‘black boxes’ is generally not regarded as best practice for its own sake. However, sometimes the needs of the task may require complex models, and sometimes they are prescribed by the regulators. In such cases, clearly the nature of the model affects the transparency of the outputs.

However, the Institute believes that the interpretation of the outputs, and the nature of the inputs, can be made more transparent through specific training and education programs in communication for actuaries.

4.2.4. “ ... *the delineation of the work undertaken by actuaries as opposed to that undertaken by other professions. Certain roles are reserved exclusively for actuaries, to ensure that the specialised task of valuing long-term liabilities is carried out by appropriately qualified people – whether this continues to be appropriate and if so to what extent and over what range of activities is one of the issues considered by this review.*”

“However, much of what actuaries do overlaps, sometimes extensively, with the work of financial analysts, economists, statisticians, demographers and others. ... The review acknowledges the critical role of actuaries’ skills in assessing long-term liabilities but questions whether actuaries are necessarily best-placed to advise on asset allocation or fund manager selection. The review provides an opportunity to reflect on whether users have become over-reliant on actuaries for services beyond long-term liability analysis.”

The Institute believes that this arrangement can be an effective assistance to regulators by guaranteeing quality in the advice given. This type of arrangement operates well in Australia, in the life insurance, general insurance, health insurance, and superannuation sectors. It is noted that in all those cases, the Institute works closely with the regulators concerned.

The question of actuaries’ involvement in the liabilities side of the balance sheet has been dealt with in general above. In this context, it should be clear that the Institute does not claim that actuaries are necessarily “best-placed” to advise on assets in all contexts. However, its members are trained to advise on assets in the cases where they do so, and many work exclusively in the investment field in Australia, as they do in the UK, in competition with other investment professionals.

It is hard to see that actuaries’ clients could have become over-reliant on actuaries services in situations where they have chosen actuaries without pressure to do so, and outside the prescribed roles of actuaries. However, It is possible that there may be bundling considerations in the UK of which the Institute is not aware.

In Australia, actuaries have been seen to supply impartial advice on investment performance, when previously this had been hard to get. Arguably, this has increased transparency in the process of selecting funds managers, and it is a service clients (including financial advisors) continue to buy willingly.

4.2.5. “ ... *this review takes place against the background of widespread concern that the population’s long term savings are substantially below the level required to meet their needs.*

“Actuaries have been criticised in this context on three main grounds. ...”

“A ... sustainable view, ... is that actuaries, as the relevant experts, were too slow to adjust to the changing circumstances; were, with some exceptions, too inflexible to consider or reflect sufficiently on the likelihood or the consequences of large adverse movements; and thereby provided, explicitly or implicitly, considerably more assurance to customers and consumers than was warranted.”

This view is largely the same as the view in 2. above, and no further comment is necessary on that basis. It may not be clear enough, however, to an uninformed reader, that the Interim Assessment does not attribute accountability for the national savings deficit to the actuarial profession alone.

The Institute strongly supports the view that:

“Against this background, the central question for the review, and indeed for the Profession, is how it can ensure efficient delivery of best-practice actuarial services to users.”

“This relates to ...

First, to how actuaries are trained; what standards are set and how they are enforced; and to what scrutiny they are subject.

Second, to whom are they accountable; how does this incorporate public interest considerations; and how does an appropriate regulatory regime secure this.

Third, how is actuarial advice made available so that, through market or other mechanisms, users are able to identify, select and evaluate the best advice.”

5. Competition

The Institute does not wish to comment on competition in the UK for actuarial services, other than to point out that any restriction of UK actuaries' activities may restrict their capacity to compete with EU or other overseas actuaries either domestically or abroad.

6. Regulation

The Institute recognises that the regulatory framework for actuaries has the four main aspects named by the Review: the setting of appropriate education and continuing professional development requirements for members of the profession; the setting of high-quality professional and ethical standards to protect the public interest; the monitoring of members' compliance with these professional standards; and the administration of disciplinary procedures in the event of misconduct.

However, there is no simple and effective means of dealing with the potential conflicts of interest in the professional bodies both representing their members' needs, and simultaneously regulating them for the benefit of members and the wider public interest.

The Report describes a form of full statutory regulation as an alternative model to self-regulation, with an independent statutory regulator dedicated to the regulation of the actuarial profession. The Institute agrees that this appears to be a disproportionate and costly response for a small profession.

The Review also rejects the idea of the existing statutory regulators taking on the role of regulating individual actuaries. The Institute supports this view.

The objective is clearly to combine professional actuarial input into the regulatory framework, but to equip it with sufficient independence from the professional bodies to provide the necessary protection and assurance for the public.

One of the Institute's taskforces recently observed that "... it is often necessary to have actuaries as witnesses in disciplinary hearings, but not necessary (or desirable) to have actuaries as judges, if there is a workable alternative".

The Institute is not qualified to give an opinion on the effectiveness of the UK FRC in the role canvassed by the Review.

7. Reserved roles

The Institute supports the conclusion of the Review that "*... at least in the short-term there is a need to continue to reserve specific roles to actuaries in the life and pensions areas. This ensures that technical and professional standards continue to be met.*"

The Interim Assessment also comments that "*... there are also potential adverse implications for competition which may need to be addressed in the future.*" The Institute believes that competition implications are a necessary concomitant with the prescription of roles to one or more profession(s).

It is assumed that any "*other suitably qualified professionals*" who might compete for such roles, would need to demonstrate the same or better competencies as the actuarial profession at the time, and there can be no objection to competition on that basis.

8. Public interest and accountability

The Institute supports the conclusion of the Review that "*... actuaries' role in advising pension schemes and insurers are central to overall financial stability.*"

The Institute supports the conclusion "*that there is a real need to provide clarity over to whom actuaries are accountable and for what; to have a clear hierarchy of accountabilities; clear guidance on when the actuary must whistle-blow and act in the public interest; and clear protections and incentives for whistle-blowing.*"

In Australia, as elsewhere, the actuarial profession serves the public interest directly through the many measures it takes to ensure the delivery of quality actuarial advice, and the highest level of professional conduct. Individual actuaries also serve the public interest, through the delivery of those services to their clients.

The Institute is also very active in advising public policy makers, in the public interest.

However, it is particularly important to clarify the meaning of the phrase “serving the public interest” if it is taken to imply other duties beyond those contracted for by the client.

Where, in addition to providing the services contracted for, the actuary is required to take on roles in relation to consumer matters or regulatory compliance, this should be clearly stated in advance and should be accompanied by appropriate legislative support.

The comments above apply particularly to roles having the character of “whistleblower”. In such roles, the actuary in the position of serving as a quasi-regulator rather than as a professional advisor to management, and changes in the law may be required to protect the actuary from retaliation. However, the need for clarity, and support where necessary, is important whatever the role.

Where several regulatory bodies may be involved, it is more effective when the duties and degrees of protection are comparable in similar circumstances.

9. Education/CPD

The Institute notes the issues identified by the Review in relation to the education and continuing professional development (CPD) of actuaries in the UK.

Comments on the Options aimed at addressing these issues are made below.

10. Standard-setting

The Institute supports the view expressed by the Review that “... *the setting of high-quality and continuously developing actuarial standards (is) one of the most important issues facing the actuarial profession today.*”

The Institute has experience of working with an independent Actuarial Standards Board that sets, revises and regularly up-dates professional actuarial standards for the life insurance industry.

However, the Institute notes that some actuarial standards deal with commercial activities outside the scope of advice to regulated entities and/or their regulators, and that the setting of these standards might need to be considered separately.

11. Scrutiny and discipline

The Institute supports all forms of scrutiny of actuarial advice: through better informed consumers; greater choice and market testing; enhanced supervision by regulators and either ex-ante or ex-post scrutiny.

The Institute also supports any measures that can effectively and economically narrow the understanding gap that exists between users of actuarial advice and their advisers.

The Institute regards internal or external peer review, particularly in relation to reserved roles, as a major addition to the quality and comprehensibility of actuarial advice, and has adopted it as best practice in many circumstances.

At the same time, the Institute respects the rights of its non-regulated customers to decide for themselves whether or not they need it.

12. Government Actuary's Department (GAD)

The Institute makes no comment on the future role of the GAD.

It is worth noting that the GAD, through its involvement in diverse areas, has historically contributed to the diversity of ideas entering the profession, both in the UK and globally.

13. Summary of Options

CHAPTER 2: THE MARKET FOR ACTUARIAL SERVICES

Increasing competition

- 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

Support

- 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 Institute is not aware of any practice of enforced bundling of services in the UK. We believe that bundling should be a customer option, although it may prove to be more expensive.

Increasing market testing

a) greater scrutiny of performance

- Option 1: increased education/expertise of users; and/or

The range of users of actuarial advice is so large, and fluctuating (with Board and Trustee elections, for example), that anticipatory education is likely to fail because it cannot identify the recipients of advice in advance. The qualifications that the customer must have in these contexts are generally determined by regulation, or trust law, and might be better dealt with in that context.

Above all, the Institute believes that the most effective means of education is to ensure that the education is delivered alongside the advice, and to the same recipient – the customer.

- Option 2: regular formal reviews of advisers could be recommended or required every 3-5 years; and/or

This is a possibility. However, there is no evidence that frequent re-tendering of advice contracts improves advice. Reportedly, the emphasis tends to focus on cost: and there may be opportunities for “opinion-shopping”.

- Option 3: performance measurement of actuaries could be encouraged; and/or

Support in general terms. However it is not clear what process is proposed to measure the quality of actuarial advice.

- 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.

Strongly support, in relation to reserved roles and as ‘best practice’ generally.

b) improving user understanding

- 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

Support in general terms, but without specific knowledge of the measures in hand.

- 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

Support. This information is currently publicly available and should be promoted more broadly.

- Option 3: greater use of professional trustees or trustees who are members of several trustee boards.

Support, but with the reservation that professional trustees may be less motivated than member-elected trustees.

Improving clarity of advice_

- 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

Support, in areas where actuaries compete on a level commercial footing without reserved roles.

Do not support, in relation to reserved roles (see comments on peer review).

- Option 2: improve actuarial training and CPD requirements to equip actuaries with improved communication skills; and/or

Strongly support.

- 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

This suggestion is unclear as to the parties to whom these FCR's should be disclosed. In the Australian regulatory regime the FCR is produced for the board, the management and the regulator. The main issue in disclosure of forward-looking FCR's is confidentiality and preservation of the candid nature of these actuarial reports. Within these limits the Institute believes that comprehensive FCR's are the most effective means of dealing with the financial management of a complex institution, such as a bank or an insurer.

- Option 4: explore means by which regulatory requirements might be simplified.

Support (as a matter of principle).

CHAPTER 4: ACTUARIAL ROLES

Reserved role in general insurance

- Option 1: continue with the status quo – no reserved role; or

We regard Option 3 as preferable.

- 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

We regard Option 3 as preferable. We note that if implemented, this would imply a mechanism/body to regulate the activities of the approved persons. Without knowing how that would be handled it is difficult to comment on likely effectiveness.

- Option 3: a full role reserved to actuaries, with associated public interest duties and whistleblowing requirements; and/or

Support. In Australia, part of the package of reforms that was introduced following the failure of HIH was the introduction of a reserved role for actuaries in general insurance with associated public interest duties and whistleblowing requirements.

- 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).

Support, in conjunction with Option 3.

CHAPTER 5: PUBLIC INTEREST AND ACCOUNTABILITY

Reporting and whistle-blowing

- 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

Support, but only in conjunction with Option 2.

- 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

Support, but only in conjunction with Option 1. Neither can work effectively without the other.

- 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.

Support, but best in conjunction with Options 1 & 2.

Actuarial Function Holder

No comment. Unfamiliar with the operation of this new role in practice.

With-Profits Actuary

No comment. Unfamiliar with the operation of this new role in practice.

Reviewing Actuary

- Option 1: status quo – Reviewing Actuary role as currently specified by FSA, with the Reviewing Actuary reporting privately to the auditor; or

Support, but appears inferior to Option 2, since the recipient of advice does not receive the commentary.

- 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

Support.

- Option 3: Reviewing Actuary to have direct whistle-blowing duties.

Support.

Pensions

- 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.

The Institute feels that it cannot support a default position that the Scheme Actuary advises both parties subject to exceptions that the Actuary (alone) decides. This has not been the case in the past, since the Trustees have a duty to be alert for conflicts, and to act on them if detected. We note also that the Actuary has a duty to declare them, and not to undertake work that s/he believes would be adversely impacted by the conflict.

The Institute believes there are many circumstances where work can be carried out for both parties without a conflict having material

impact on the quality of advice, and where the economics are favourable for the clients concerned.

However, the Institute would respect any decision by a Scheme Trustee to regard the roles as materially in conflict in any situation. It is to be expected that the roles will be separated for many key (and particularly non-routine) issues where the conflict is material.

However, for small schemes this might have very adverse economic consequences in terms of cost of advice, and the Trustees should be able to decide to the contrary if on balance that is in the interests of the Scheme's beneficiaries.

CHAPTER 6: EDUCATION AND CPD

The syllabus and governance

- Option 1: minor reform of the existing governance structure to promote greater academic and non-actuarial input; or

It is not clear what minor reforms are envisaged, however the concept of greater academic and non-actuarial input is supported.

- 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).

The Institute has insufficient visibility of this body to comment on its effectiveness directly. However, in other contexts, the presence of an over-arching body has been seen as disempowering for the professional bodies concerned, and may in practice reduce the accountability of the profession for its standards.

It is noted that there may be several other Options that are worth pursuing here, possibly including further reforms on the part of the UK professional bodies in the light of this Review.

Examinations issues

- Option 1: reform of the existing governance structure to improve quality control; and/or

Support in general terms. However, we are not aware that there is a significant problem to be addressed with regard to the quality control of examinations.

- Option 2: involvement of full-time and dedicated professional examiners; and/or

It would seem to be a necessary condition that standards of professional competence and advice-giving could be demonstrably

improved, as a result, and this would depend on the details of implementation. It seems inevitable that this Option would be more expensive than the current process, and that it would be more difficult to involve active practitioners.

- Option 3: involvement of an independent oversight body in exam setting and marking.

Again, it would seem to be a necessary condition that standards of professional competence and advice-giving could be demonstrably improved, as a result, and this would depend on the details of implementation. Independence of itself will not guarantee quality, but may be necessary as part of a broader set of criteria. It seems inevitable that this Option would be more expensive than the current process, and that it would be more difficult to involve active practitioners.

Broadening actuarial education provision

- Option 1: wider provision and accreditation of degrees that grant exemptions from the Profession's exams; and/or

Support. The current collaboration between this Institute and selected Australian universities both (a) ensures that many graduates gain exemptions, and (b) equips many others (who may or may not ultimately complete actuarial training) to enter a variety of other jobs outside the traditional base of the profession, which nonetheless require a deep understanding of financial issues.

- Option 2: promotion of post-graduate fast-track law-style conversion courses for those with university degrees.

Support in general terms for recent graduates, up to Associate level.

Do not support for provision of full Fellowship qualification, where commercial judgement, and advice-giving competencies must be tested.

Continuing professional development (CPD)

- 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

Support.

- 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

Support.

- 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

Support.

- 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.

Support, in conjunction with Options 1, 2 & 3 above.

CPD monitoring

- 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

Support.

- 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

Prefer Option 1. The Institute believes that this type of CPD process would tend to pigeon-hole actuaries into narrow practice areas, which would reduce both inter-sector mobility of actuaries, and cross-fertilisation of ideas.

- 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.

Support if such a body is to be created: but since we do not believe that this type of body would be the optimal solution, we prefer Option 1 or 2.

CHAPTER 7: STANDARD-SETTING

Actuarial standard-setting

- Option 1: Actuarial Standards Board (ActSB) which is quasi-independent of the Profession (as per the Profession's proposal); or

Support. We have found that the Life Insurance Actuarial Standards Board in Australia has worked well and we favour this model for reserved roles involving determining reserves and liabilities.

- Option 2: Actuarial Standards Board (ActSB) subject to oversight by a suitably independent body, for example the Financial Reporting Council; or

Do not support, unless proved necessary. This appears heavy-handed for non-reserved roles.

- Option 3: the FSA sets standards in life and general insurance, and DWP/Opra sets standards for pensions.

Support in preference to Option 2, but believed inferior to Option 1.

CHAPTER 8: SCRUTINY AND DISCIPLINE

Scrutiny of actuaries in life insurance

- Option 1: Reviewing Actuary as currently specified by the FSA, with no mandatory peer review as proposed by the Profession; or

The Institute supports peer review as best practice.

- Option 2: Reviewing Actuary as currently specified by the FSA, and peer review as proposed by the Profession; or

Support.

- Option 3: Reviewing Actuary's remit is expanded to include an explicit duty to report on compliance with actuarial standards; or

Prefer option 2 or 4.

- 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.

Support. We believe it is important that the peer reviewer reports to the Board/Company, whether or not reporting to the Actuarial Function Holder.

Scrutiny of actuaries in pensions

- Option 1: maintain the status quo of no formal scrutiny; or

Option 3 is far preferable.

- Option 2: include long-term liabilities within pension scheme financial statements, which are then audited; and/or

The question of a fund's long-term liabilities is only one of a number of aspects that one would expect to be addressed by actuarial advice. For this reason, Option 3 is preferable.

- Option 3: introduce peer review of the Scheme Actuary as envisaged by the Profession; and/or

The Institute supports peer review as best practice.

- Option 4: audit the Scheme Actuary's triennial valuation.

Peer review is preferred to audit, since the scope would be greater.

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

Support.

- Option 2: introduction of peer review.

The Institute supports peer review as best practice in a wide variety of circumstances.

Scrutiny of actuaries in general insurance (options for Lloyd's)

The Institute has insufficient knowledge of the effectiveness of actuarial roles in the Lloyd's market to make informed comment.

Discipline

- Option 1: the disciplinary scheme remains accountable to the Faculty and Institute's Councils; or

Support, preferably with a proportion of independent members/ chairs.

- Option 2: the disciplinary scheme is accountable to a suitable independent oversight body; and/or

Unable to support as unsure of what is proposed.

- Option 3: encouragement of closer links between whistle-blowing to regulators and the disciplinary scheme.

Support, in particular the idea of automatic investigations of any breaches of regulatory rules.

The Institute would welcome the opportunity to discuss the issues raised in this response to the Interim Assessment of the Morris Review. Please contact Catherine Baldwin, Chief Executive via email: Catherine.baldwin@actuaries.asn.au or tel no. +61 2 9239-6106.

The Institute of Actuaries of Australia
ABN 69 000 423 656

Level 7 Challis House 4 Martin Place
Sydney NSW Australia 2000

Telephone 02 9233 3466 Facsimile 02 9233 3446

Email: actuaries@actuaries.asn.au Web site: www.actuaries.asn.au