



The Pensions  
Management  
Institute

*Pensions Professionals  
in practice*

**Morris Review  
of  
the Actuarial Profession:  
Interim Assessment**

**PMI's Response**

**2 February 2005**

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## **Morris Review of the Actuarial Profession: Interim Assessment**

### **Introduction**

We are pleased to respond to the Interim Assessment from the Morris Review of the Actuarial Profession. As with our first submission, we are largely confining our comments to those areas which impact on pensions management and pension trustees.

The PMI is the professional body for people working in the pensions sector. The PMI's members work as pensions managers, consultants and technical specialists in consultancies and insurance companies. Many are also actuaries, pensions lawyers or company secretaries. Their experience is therefore wide ranging and has contributed to the thinking expressed in this response.

### **Chapter Two – The Market for Actuarial Services**

#### Increasing Competition

We support a voluntary approach to the second option outlined. We suggest that, certainly in relation to investment advice, this is an area already covered by the Myners Code on Investment Decision-Making. There is, therefore, potential for overlap. If the outcome of this review does lead to overlap there is a risk of confusion and contradiction and we would, therefore suggest that final recommendations in this areas are not prescriptive but remain voluntary principles.

Furthermore there are some areas where bundled services are of benefit, for example in the case of fully insured schemes. To require that all services are unbundled will result in increased costs to no benefit to scheme members.

#### Increasing Market Testing – Greater Scrutiny of Performance

We are very supportive of the idea that there should be increased education of users, although we would be wary of expecting pension trustees to become expert in this area as the lay trustee brings value to debate. However, the requirement to increase knowledge and understanding in this area is clear, and we recommend that the Review works with OPRA and The Pensions Regulator on the proposed Code of Practice for Trustee Knowledge and Understanding.



We are very concerned that there will be a requirement that there should be regular formal reviews of advisers every three to five years, as suggested in Option Two. Whilst as a matter of good practice trustees should be reviewing the appointment of all advisers on a regular basis, the risk of setting this out in some formal requirement (possibly even a statutory requirement) is that it means going through a full formal tender process. This will result in a large increase in the workload for trustees, increased costs (because the cost of responses to such tenders will be reflected in actuarial fees charged) and no benefit to trustees commensurate with the cost of the exercise. It is possible to review the appointment of an adviser (auditor, actuary, investment manager) without going through a full tender process. We would recommend that this is an area where a Code of Good Practice could be developed (along with other elements covered in the review) and would suggest that the Review Team may wish to discuss with OPRA and The Pensions Regulator whether there is scope for The Pensions Regulator to develop a Code of Good Practice for Actuarial Relationships for Trustees.

We are supportive of the concept of measuring performance of actuaries, although suspect this might be more difficult than it first appears. We also agree that effective peer review has an important role to play – as it does in any profession.

#### Increased Market Testing – Improving User Understanding

As mentioned above, we support the initiatives in improving Trustee Knowledge and Understanding, and therefore support completely Option one. We are also, as part of the same process, supportive of Option two as increased understanding, leading to increased challenge, will make for better decisions overall. However, we are concerned at the implication that there could be a requirement to have professional trustees, or trustees who sit as trustee on more than one scheme. There are already requirements for the number of Member Nominated Trustees, and there is a risk that any additional proposals in this area will lead to overlap and possible contradiction. Furthermore, the proposal will reduce the role of the lay trustee, which we believe adds real value to trustee deliberations<sup>1</sup>.

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<sup>1</sup> Quite frequently, the lay trustee is a scheme member, and will relate discussions back to the membership. Whilst professional trustees (whether part of a corporation supplying trustee services or someone working on his or her own account) should be more knowledgeable, such trustees do not have the ability to say “what does this mean for me and my work colleagues” – a very powerful and fundamental question.



## Improving Clarity of Advice

We believe strongly that clarity of advice is the key to improving understanding and challenge, and therefore outcomes.<sup>2</sup> We support a combination of all four options outlined in this section.

### **Chapter Four – Actuarial Roles**

#### Reserved Role in General Insurance

As this does not impact on trustees or pension management, we have no comment.

### **Chapter Five – Public Interest and Accountability**

#### Reporting and Whistle-Blowing

Despite the significance of individual judgement in the provision of actuarial advice, there should be clarity for actuaries over whistle-blowing and reporting obligations. This will not only be of assistance to the actuary, the client will have a better understanding also. We therefore recommend that there is a combination adopted of Options one and two. We believe that Option three could result in a prescriptive regime which could end up with reporting by rote rather than reporting issues of real value.<sup>3</sup>

#### Actuarial Function Holder

We have no comment.

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<sup>2</sup> For example, in actuarial valuations a key assumption is the inflation rate. Currently a common rate used will be 2.8%. Trustees without the confidence to challenge may assume that such a figure has been chosen because it is the Bank of England target plus a margin for prudence. However, in fact 2.8% is the inflation rate currently implied by the market, but the market may be distorted by outside influences and therefore 2.8% may not be an appropriate rate to use. If trustees have confidence to simply ask the question “how is that rate derived” then a more useful discussion can be held.

<sup>3</sup> For example, auditors will report any late payment of contributions to OPRA (and until recently have required pension scheme accounts to be qualified) even if the late payment has no sinister implications, was made good within days (plus interest) and the member did not suffer. This has resulted in OPRA receiving many reports of such non-material events and yet professional guidance to the auditing profession meant auditors had no choice. There would be no benefit to move actuaries into the same position – indeed it would only result in an increase in the staff required at The Pensions Regulator, which would increase the levy on pension schemes (and therefore costs) and yet there would be no ultimate benefit.



### With-Profits Actuary

We have no comment.

### Reviewing Actuary

We have no comment.

### Pensions

As stated in our first submission there are many occasions where there is benefit for trustees, employer and members of having access to the same actuarial advice. We are not, therefore, supportive of Option four. We would welcome stronger guidance from the profession about the management of actual and potential conflicts, but are of the view that the best approach will be determined by circumstances and that a combination of Options one, two and three will be used as and when appropriate.

## **Chapter Six – Education and CPD**

### The Syllabus and Governance

We would support proposals to ensure that the academic content and rigour of the current approach is not diluted, whilst at the same time allowing the syllabus to develop to ensure that actuarial education includes reference to current issues.

### Examination Issues

We are not convinced that Options two or three are likely to improve quality control or are proportionate responses given the smallness of the profession. We would, therefore, support Option one, as long as it provides robust quality control.

### Broadening Actuarial Provision

We have no comment.

### Continuing Professional Development (CPD)

CPD is vital for the maintenance of professional knowledge. We are completely supportive of Option one, therefore. We are also supportive of the concept of differing CPD requirements for differing roles. We strongly support the “Outcome Based” approach for CPD adopted by many Institutes as an expression of best practice in this area, and are of the view that CPD should



always remain in-tune with current developments and learning. We think that elements of all four options outlined in this section would add value to the CPD process, although we would counsel against undue bureaucracy.

### CPD Monitoring

Other than to say that it is important that there is some monitoring of CPD, we have no comment.

## **Chapter Seven – Standard Setting**

### Actuarial Standard Setting

We are reluctant to support Option three, as we do not see that this is an appropriate area for statutory regulation as this has the risk of leading to over prescription, and lack of ability to adapt to changing circumstances. We would, therefore, support either Option one or two.

## **Chapter Eight – Scrutiny and Discipline**

### Scrutiny of Actuaries in Life Insurance

We have no comment.

### Scrutiny of Actuaries in Pensions

We believe that the most effective scrutiny of actuaries will come from the clients as a result of the Pensions Act 2004 requirements for improved Trustee Knowledge and Understanding. Including long-term liabilities in pension scheme financial statements will render these statements more opaque to the scheme member, and therefore of much less benefit. We do not see what value it has, other than to allow scheme auditors to consider the actuarial assumptions. We question why auditors would have more knowledge or ability to challenge the relevance of actuarial assumptions to the scheme being audited than trustees of that scheme given that the trustees will not only have knowledge of the scheme in question, the strength of covenant from the employer, and the Knowledge and Understanding required by the Pensions Act. For the same reason we can see absolutely no benefit in requiring the audit of an actuarial valuation. We do not, therefore, support either Option two or four.

### Scrutiny of Actuaries in General Insurance

We have no comment.



Discipline

Any disciplinary arrangement should comply with the Human Rights Act, but also be robust to ensure high professional standards. Other than this we have no comment.

We trust that you find these comments helpful. We would be happy to discuss these with you further if that would be of assistance.

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