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The Morris Review
Room GC/08
1 Horse Guards Road
London
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4 February 2005

Dear Sirs

PricewaterhouseCoopers made its main submission to the Morris review last autumn. The points raised in the submission remain valid in this latest round of consultation and so we have produced a short letter now picking up on just a few points under each of the three main areas of activity in which we operate.

Pensions

In our previous submission, we highlighted the importance that the outcome from the Morris review should be to change, to the extent necessary, to better serve the public interest. This is not about individuals being asked to serve different masters. Instead it is about simplifying rules and structures where competition demands and adding in new requirements where required to reduce conflicts of interest, threats to independence or misleading/unclear certifications.

We highlight two areas where we feel that the consultation seems not to be getting to grips with what the public interest demands:

- separation of advice between employer and trustees. The consultation document seems to imply that cost issues should allow continuation of the status quo. Public interest surely should require otherwise. If conflicts of interest exist which can work against the public interest, then presumably the right answer is to have rules or structures which remove the conflict in the most practical and cost-effective way rather than ignore and hope the problem goes away. The decision cannot be taken on cost per se. For example, as an analogy, it is desirable for as many people as possible, who wish to do so, to be able to own and drive a car. But we don't say that, because of the potentially high cost of car insurance, such insurance is voluntary. Protection of third parties leads to an alternative position. We would have thought that the protection of third parties (the members) of pension schemes requires, in a similar way, that cost does not override the principle of avoiding conflicts. The key is to find a pragmatic and cost-effective way of resolving the issue. Therefore, in looking at the four options put forward.

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1. Status Quo - Scheme Actuary advises both the scheme sponsor and trustees, unless the actuary deems there to be a conflict

2. Scheme Actuary advises both the sponsor and trustees, unless the trustees deem there to be a conflict

3. Role of advising the scheme sponsor and the scheme trustees is separated in some clearly defined circumstances eg during scheme wind-up

4. Role of advising the scheme sponsor and the scheme trustees is separated at all times

we offer the following thoughts. Option 1 is not acceptable from a public interest perspective. Option 2 is, in theory, acceptable if the scheme actuary advises the trustees everything they advise the employer and everything advised by the employer is passed on to the trustees. In practice this will result in option 4 but has greater dangers for all parties so we do not believe is acceptable. Option 3 is needed in relation to the situation where there is separation of actuaries but both in the same firm. In conclusion, therefore, we favour option 4 but with option 3 setting out scope when both are in the same firm.

- The need for a full audit of pension scheme financial statements, both the assets and the liabilities. In the first Morris consultation, this was highlighted as a key area for review (the analogy of two legs of the same pair of trousers was graphic). Yet the latest round of consultation is not clear on this point. We would have thought that public interest demands that one entity takes overall responsibility for certifying a set of financial statements. This happens with insurance company financial statements where the same issue exists. Once again, if cost is the problem, then the types of comment in the previous paragraph would seem to apply.

- In both areas, the cost challenge seems to be overstated; the issue does not seem to come down to one of major additional cost but the reallocation of those costs to different parties with different duties. The employer adviser and trustee adviser will have different client needs to address but the computations on which those needs are based do not necessarily need to be duplicated. The audit of the liabilities is a check on their correctness; if this is currently conducted in the wrong place (ie not within an audit framework) it needs to be reassigned; if it is not currently done, this is a serious weakness in the financial management of pension schemes that needs correction.

General insurance

We set out in our previous response the reasons why we are unconvinced of the desirability of a reserved role for the certification of general insurance company reserves. We recognise, nevertheless, the pressures to formalise actuarial involvement in this area. In terms of the options set out in Section 4.32, we are not in favour of either options 2 or 3, since these appear to take the responsibility for setting reserves away from the directors of companies, where we firmly believe it should remain. An alternative option which would be preferable, in our view, is to introduce a requirement for Directors to take actuarial advice. Option 4 (introducing a requirement for auditors to take actuarial advice) could we suggest only be introduced after consultation with the accountancy profession on the practicalities. This change may not have much impact in practice. Certainly in our firm this is already a requirement for insurance audits, and has been for many years, although the level of formal reporting may be affected.

Should some changes be proposed in this area we consider that it would be neither feasible nor desirable to differentiate between long-tail and short-tail general insurance liabilities. The practical difficulties would be very significant, and would lead to considerable confusion and inconsistency.

We have not commented at this stage on the options for scrutiny or peer review, since they will depend on the nature of any reserved role which may be proposed.

Life assurance

Overall we believe that the changes introduced by the FSA to reserved roles within the Life Assurance industry have created an appropriate framework for the future. For this framework to operate effectively it needs to be supported by clear guidance and standards. We believe that, in the context of life assurance work where the FSA impacts, Model B for the Regulatory Framework as set out in 3.47 of your report is the best of the three options for the regulation of actuaries. We feel it is important to have sufficient practitioner involvement within the oversight body and we would want to see an examination of the merits of establishing a new oversight body compared to the FRC.

Responding to the options on scrutiny of actuaries in life assurance as set out in 8.42, we believe that option 1 should be sufficient. On options for reporting and whistle-blowing set out in 5.28 we believe that all three options would help clarify the requirements in relation to life assurance work.

Yours faithfully

PricewaterhouseCoopers