

ACTUARIAL ADVICE & LIFE ASSURANCE BOARDS

Note by Sir Nick Monck

Introduction

1. This note outlines a few purely personal suggestions which may be worth considering. They are relevant to the Myners Review (Summary Questions 4-6) and perhaps to the Morris Review (for example Questions 1.25 and 2.5, .7, and .34). The suggestions may already be followed in some companies even if they are not explicitly part of best practice.
2. I am a non-executive director (NED) of Standard Life and one of my starting points is agreement with the company's submission to Myners. My suggestions do not distinguish between a mutual and a proprietary company and do not assume that any NEDs should be required to be actuaries.
3. Another starting point is that the FSA's proposals for changing the Appointed Actuary regime will be a clear improvement and that the Board is responsible for decisions about all the subjects on which actuaries give advice.

SUGGESTIONS

Guidance and duties of Actuaries advising Boards

4. a. It might be a professional requirement that papers for the Board should include a short (one page) annex describing the purpose and logic of the analysis and identifying the key discretionary elements in the approach and the key assumptions or combinations of assumptions. Professional guidance might include model versions of such an annex for the main papers which the Board's actuarial advisers have to provide at least once a year (eg bonus decisions, investment constraints, solvency and balance sheets for Companies' Act or regulatory purposes).

Although knowledgeable readers might skip the annex, it would be a help to others.

b. Papers should discuss alternative approaches and assumptions; their broad effects; and the reasons for rejecting them eg regulatory prescription, "best practice", or other arguments of substance.

c. Actuaries providing this advice might have a duty to do everything reasonably possible not only to achieve high quality but also to ensure that Board members understand the content and what it implies and does not imply for policy. Their training and examinations already include communication with someone who is not an actuary.

Involvement of NEDs in appointment and departure of Actuarial Function Holder and With Profits Actuary.

5. a. The holders of posts providing advice to boards clearly need to be able to work well with the Executive, but should not be dominated let alone muzzled by it. I suggest that although one or more candidates would be recommended by the executive, there should be an interview before appointment with NEDs who would want to assure themselves that the candidate is sufficiently independent to advise the whole Board well. If necessary, they would ask to see an alternative candidate.

b. When the holders of these posts move on, NEDs would have the chance, which they would normally exercise, to have an exit interview. This should help to reduce the risk that the move is being made because of disagreements with the executive; and also be instructive more generally.

c. There is a case for a similar procedure when the company appoints a consultant actuary as a peer reviewer.

Oversight of the Actuarial function by the Board

6. The FSA's proposal that a Reviewing Actuary would take part in the audit of the company's accounts would make it natural for the Audit Committee to look into the key approaches and judgements adopted in preparing actuarial advice and arriving at the numbers put forward.

One way into this would be for a paper to be prepared for the Audit Committee, at least once a year but preferably more often, on the exchanges between the company's actuarial adviser, the peer reviewer, and the reviewing actuary and the issues raised in these exchanges. This would provide evidence about the substance and the vigour of debate. The Audit Committee could not take over the full Board's responsibility for actuarial judgements but it could spend more time on the subject and make sure that it passed on its views and the key evidence for them to the Board .

Fuller disclosure of differences underlying balance sheets published in successive years

7. There may be a case for the profession and perhaps the regulator to consider whether present practice makes it sufficiently clear whether the published balance sheet has been prepared on the same basis as in the previous year; and, if not, what the differences are and whether the result is stronger or weaker. IFRS4 may in any case raise issues of this sort.

7.9.04

N.M.