

**Response to the Morris Review of the Actuarial Profession**  
**– Interim Assessment**

As a major client (along with our fellow trustees) of the actuarial profession, there are three areas of the consultation document on which we would particularly like to comment by way of response and emphasis to the points we have already made and these are:-

- Communication
- Accountability
- Scrutiny

Communication

Actuaries are an easy target of old jokes about inability to communicate. However, in our experience actuaries working nowadays in the front line of consultancy need to be effective communicators or will fail. The most effective communicators tend to be among the most successful of actuaries.

Trustees have long realised that there is no point in paying heavily (or even at all) for advice they do not understand. Since the Pensions Act 1995 took effect, trustees appoint their own actuaries and have found it easier and easier to demand effective communicators. Each set of trustees will have their own view of who is and who is not an effective communicator which is one reason why an individual actuary can be well regarded by one set of trustees but not hit it off with another. When trustees are not receiving the service they require, a quiet word with the Senior Partner or Chief Executive of the actuarial firm will usually lead, in our experience, to a prompt resolution of the problem. On occasion it may be appropriate to replace the individual actuary concerned.

The market will take care of the communication problem to the extent it still exists.

## Accountability

The consultation document identified as a major issue the increasingly explicit nature of the conflicts of interest between scheme trustees and scheme sponsors. These conflicts can lead to a conflict for an actuary who is appointed to advise both parties.

The consultation document sets out 4 options. One solution is to insist that all trustees and sponsors are advised separately by unconnected actuaries. That would minimise any risk of conflict arising for either actuary. It will however create friction where none has previously existed. Actuaries trying to demonstrate they are delivering value to their respective clients will tend to exacerbate sources of conflict between trustees and sponsor rather than neutralise them.

Trustees should however require their Scheme Actuary to acknowledge that their first duty is to the client (i.e. trustees) as is recognised formally in the Professional Conduct Standards. They should also recognise they should not share any aspect of their work with the sponsor or for that matter any other party without the prior consent of the trustees and this should be emphasised if necessary in the terms of the Scheme Actuary appointment. Actuaries have in our experience been casual at times about for example relaying valuation results to the employer or discussing with the sponsor the suitability of particular assumptions.

In our view the most practical route forward is a combination of options 3 and 4. Trustees need to be aware of how and where conflicts may arise and form their own view as to whether the Scheme Actuary can advise the sponsor in any particular matter. Handling conflict should increasingly become a standard part of trustee training. We believe it is appropriate for trustees to insist that the Scheme Actuary will not advise the sponsor without prior written consent from the Trustees. In some circumstances (e.g. during a wind up) such consent would not be forthcoming but it would not otherwise be withheld unreasonably. This should prove to be a sensible and economic solution. If it does not, then further prescription will be required.

It is often argued separate advice would be unnecessarily expensive. In our view cost should not be a critical issue, as the sponsor can obtain independent advice based on data and factual material supplied by a Scheme Actuary without incurring unreasonable expense. When there is an issue of clear conflict there is no question the extra cost has to be borne. Nevertheless, the proposal avoids imposing an automatic and at times possibly unnecessary cost.

### Scrutiny

It is our experience that the quality of actuarial advice is high. Frequently it is outstandingly good, and only rarely is it less than adequate. The report recognises the general qualities of actuaries and these accord with our experience – our concern is more with the scope of actuarial advice rather than quality.

There is, of course, difficulty in trustees being able to measure the quality of the advice. We all take advice to help achieve solutions to problems that we do not feel confident to tackle without advice.

The relationship works best when the receiver of the advice is sufficiently well informed to feel confident in his adviser and the law already envisages extending the requirements on trustees in terms of knowledge and understanding. Training in the use of advisers should be a key part of trustee development – the trustees' problem not the profession's.

All consultants know that the presentation of advice needs to be sensitive to the skills of the recipient and to demonstrate its own quality. This leaves a technical area where the trustee will have to rely on the adviser. To date this has been addressed at least in larger firms with internal systems of quality control necessary to protect the reputation of the firm and to minimise litigation risks.

The profession has proposed its own method of extended peer review and we believe that it should be given an opportunity to succeed. Such peer review:-

- will be more cost effective, and

- less inhibiting of innovation

than the alternatives proposed.

Our concern however is not so much with the general quality but with the scope of the advice. In our experience there is a tendency for advice to be much stronger on analysis of the issues and identification of trustee options than it is on recommendation as to specific future action for trustees. There has been a tendency for actuaries to limit the scope of their advice. The trend is towards laying out options from which trustees can choose and avoiding in many situations giving a firm steer to trustees e.g. on funding assumptions or investment strategies.

There is a risk that more intensive peer review will lead not just to better presentation and accuracy (which would be welcome) but also to a blander product (which would be regrettable).

The Law Debenture Pension Trust Corporation p.l.c

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