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The Morris Report

THE ROLE OF ACTUARIES, THE PROFESSION AND THE ACTUARIAL SERVICES MARKET

The scope of the actuarial role

Q1.1 What do you see as the main value provided by actuaries and, conversely, what are their weaknesses? In general, are actuaries properly equipped for the roles that they perform?

A1.1

Value	Weakness
<ul style="list-style-type: none">• Skills	<ul style="list-style-type: none">• Communication
<ul style="list-style-type: none">• Professional standards	<ul style="list-style-type: none">• Take on too much

Properly equipped?

- Yes in general but can be optimistic of abilities

Q1.2 Are there areas of business that you think actuaries should become more involved in or conversely are there areas of work you think actuaries should leave to other professionals?

A1.2

More	Less
<ul style="list-style-type: none">• General management	<ul style="list-style-type: none">• Certain areas of reserving (lawyers)
<ul style="list-style-type: none">• Pricing and capital management	

Q1.3 Do you think that there is still a need for particular roles for actuaries to be reserved by statute and, if so, which roles and for what reasons? If not, why not?

A1.3 No – reserved rules should exist but each organisation should need to demonstrate that it has the range of skills available; could be one person or several. Professional code of ethics is an advantage.

Q1.4 What impact, if any, has the existence of reserved roles had on the effectiveness with which actuaries work with non-actuaries?

A1.4

- Encouraged rigorous analysis.....
-but offered chance for management to wash its hands
- Actuarial reports that are required can end up being “done to a price”

Q1.5 If roles reserved exclusively to actuaries are maintained, do you think that there is a need to introduce greater peer review and scrutiny of such work?

A1.5

- Not necessarily – should be able to rely on professional ethics
- If so, needs to be done cleverly to ensure not just extra cost

Q1.6 Could other professions work more closely with actuaries or in related functions to help maintain and improve actuarial effectiveness?

A1.6

- Yes especially accountants and perhaps lawyers

Accountability of actuaries

Q1.7 To what extent should actuaries accept some responsibility for their role in designing financial services products that have subsequently turned out not to be “fit for purpose” for consumers? Why were these issues not brought to light by the profession earlier and therefore perpetuated to the detriment of consumers? What lessons can be drawn from these experiences for the future?

A1.7

- Probably in part – hid behind duty to client/employer
- In future clarify role and responsibilities? But if that is effective risks alienating actuary from commercial client

Q1.8 Are actuaries sufficiently accountable for their actions? To whom should actuaries be primarily accountable – to their clients or employers, to pension fund trustees or sponsors, or to a broader public interest, which encompasses the strength and stability of the insurance and pension sectors and the interests of those consumers involved?

A1.8

- Must be via duties that all senior managers have i.e. duties on Companies

Q1.9 How would you characterise the current situation in the UK in this respect? Are there changes you would like to see introduced in terms of the accountability of actuaries to their employer or to the public interest?

A1.9 --

Q1.10 Are actuaries sufficiently liable for their actions? If actuaries provide poor advice, to whom should they pay compensation?

A1.10

- Same as other professionals. Actuaries' bad advice usually emerges as 'bad' only with hindsight

The Profession

Q1.11 How effectively does the Profession engage with government, business, regulators and other professions?

A1.11

- Not very! Feels isolated

Q1.12 Has the Profession successfully expanded the horizons of actuarial knowledge and promoted innovation?

A1.12

- 5/10 e.g. financial economics has slowly gained acceptance but Pensions legislation does not really make sense.

Q1.13 Has the Profession done enough to promote the work of the actuarial profession?

A1.13

- Actuaries have long had a powerful role so must have but too little questioning from clients

Q1.14 Are there any aspects of the Profession's governance structure that you would like to draw to the attention of the review? Do the Profession's various decision-making bodies represent a diverse range of interests? Should there be greater lay input into the Profession's key decision-making bodies?

A1.14

- Should be more lay input such as retired senior members of other professions. An example that has provided Lloyd's with great value is Brian Pomeroy.

Entry into the Profession

Q1.15 How important an influence on the Profession are the companies that recruit and train student actuaries? To what extent is the curriculum shaped by the needs of employers? Is this good or bad?

A.15 These companies influence the profession greatly which seems appropriate as they are the consumers of actuaries' services. The profession itself must define and enforce the 'public protection' role. The curriculum of the examinations needs to reflect the technical needs of the employer.

Q1.16 What is your view of the appropriateness of the current actuarial qualification syllabus (set in 1999) in preparing actuaries for their actuarial and broader business and management roles?

A.16 Appears to produce nearly/newly qualified actuaries with relevant technical skills. Preparation for broader roles comes from working as well as from study

Q1.17 In particular, do you think that it should take on average 5 or 6 years for an actuary to qualify? Is there the right balance between academic and practical experience, sufficient breadth of subjects studied or not studied and the appropriate degree of specialisation at the right time?

A1.17 In principle no problem with the long qualification period as it takes several years for any graduate to develop experience and maturity. Actuarial students work as well as studying. There would be risks if someone with only a short working experience was considered fully qualified, especially in view of the nature of actuarial work: many users of the advice cannot achieve a full understanding of the calculations and must rely on the actuary's having considered a range of possible approaches. Younger and less experienced people could be over-confident or their work.

It is for the profession to manage the difficulties in attracting entrants that can come with a long training period.

Q1.18 Has actuarial education and training kept up with developments, particularly in the financial markets and in financial economics?

A1.18 To a degree. These disciplines themselves are not universal solutions, and it would be a mistake to emphasise them at the expense of other ways of approaching business problems.

Q1.19 Do you have any comments about the proposed new qualification syllabus that will come into effect in April 2005?

A1.19 --

Q1.20 Is there sufficient diversity in the composition of the student body and are there enough links with other professions' qualifications?

A1.20 Probably not enough diversity but this is a result of the low number of competent mathematicians produced by the Universities: only a small number of graduates who have not specialised in mathematics will have developed the necessary skills. This is a major problem but not one the actuaries can solve or even address.

Q1.21 Is it of concern that, apart from a few universities that offer degrees in actuarial science, there is only a single provider of actuarial education in the UK?

A1.21 No. There have been times when two or more providers existed but the size of the market did not support more than one supplier. The quality of the current supplier is good though prices are high. However training costs are not very material compared with the cost of study time and of salaries.

The market for actuarial services

Q1.22 What have been the main drivers of demand for actuarial services over the last ten years? How do you see the demand for actuarial services evolving in the future?

A1.22 In General Insurance, the need for sound approaches to reserving and pricing. In future actuaries will increasingly move into general management. In the short term, Capital Modelling will become a major area of work.

Q1.23 Do the consumers of actuarial services have access to a wide range of providers or is choice in this market in any way constrained? If so, in what way and why is consumer choice limited?

A1.23 There is a reasonable range of providers though I am concerned at the trend for large accountancy firms to develop large actuarial consulting practices. This could easily lead to the market in actuarial services becoming a duplicate of that in audit.

Q1.24 Is it easy for consumers to switch between actuarial service provider? If not, what do you think could be done to encourage switching?

A1.24 Yes it is easy enough in General Insurance and it is not uncommon. (But see 1.23 – could get harder).

Q1.25 Do you think that those receiving actuarial advice sufficiently understand what they are being told and how the advice was produced? If not, what generates this informational shortfall, how important an influence on the market is it and what, if anything, do you think might be done about it?

A1.25 No. The shortfall arises partly because actuaries do not always spend enough time communicating their ideas. Some actuaries do manage to do this so there is no reason that it could not be the norm. There is also a failure by recipients to think about the problems themselves and challenge the actuaries. One reason for this is the general lack of mathematical training of most managers, and it can lead to a defeatist and arrogant attitude amongst the actuaries.

This problem is very important and the only solution is for the actuaries – both individually and as a profession – to find ways to communicate better. Managers can help by realising that uncertainty is real and inevitable.

Q1.26 Which factors have influenced the supply of actuarial advice over the last ten years? What are likely to be the most significant influences on the industry structure in the future?

A1.26 Not enough trained actuaries, so that effective ones are over-paid and in over-demand.

Q1.27 What determines whether actuarial advice is provided by in-house employees or external advisers or consultants? Does it reflect a clear difference in the actuarial role and function? Do firms employing in-house actuaries ever experience recruitment difficulties?

A1.27 Attitude of management; size; availability of suitable candidates.

Q1.28 What is your overall assessment of the degree of competition in the market for actuarial services? Is competition in any way constrained by existing professional rules or conventions? If so, which ones and to what extent could they be modified?

A1.28 I think it is quite competitive in principle but the demand is expanding rapidly and supply struggles to keep pace.

Q1.29 Do you think that the Government Actuary's Department competes with private sector suppliers of actuarial services in the market? What impact do you think GAD has on competition in the market?

A1.29 --

General insurance and the role of the Syndicate Actuary

Q2.15 What are the implications for actuaries of the FSA's moves to a realistic reporting regime in general insurance?

A2.15 The question should refer, as in the text (2.18) to a risk based capital setting regime. The implications will be significant: actuaries are likely to be closely involved in this work and there is a risk that management will not take real responsibility for the results. At the same time resources will be stretched very thin.

Q2.16 Do you agree that a reserved role for actuaries in general insurance is unnecessary?

Note in text 2.16 the actuarial opinions at Lloyd's arose from the need to provide US opinions and have nothing to do with Life business.

A2.16 Introducing a reserved role throughout the industry would be a major step. However there is a strong trend internationally for this and the UK could be seen to lag behind if nothing is done. Resources at present may not be sufficient.

Q2.17 Are there any other issues specifically relating to the role, responsibilities or regulation of actuaries working in general insurance that you would like to draw to the attention of the review?

A2.17 Fair Value Accounting will demand enormous input of an actuarial nature, although not necessarily from actuaries alone.

Investment

Q2.18 Are there any specific issues faced by actuaries working in institutional investment that you would like to draw to the attention of the review team?

Q2.19 Do you have any observations about the Institute's role in regulating investment business by actuarial firms as a designated professional body under FSMA?