

## **INTRODUCTION TO HSBC ACTUARIES AND CONSULTANTS LIMITED**

HSBC Actuaries and Consultants Limited (HACL) is an integral part of one of the world's largest financial services organisations and is a leading UK actuarial and employee benefit consultancy.

HACL employs over 400 people in nine offices throughout the UK and through its participation with both the HSBC Group and a major international employee benefits network, is extending its international presence.

## **INTRODUCTION TO OUR RESPONSE TO THE MORRIS REVIEW**

Actuaries in the employ of HACL have different roles; e.g. scheme actuaries and investment consultants

This consolidated response has been led by our Chief Actuary, Alistair Meikle (e-mail: alistair.meikle@hsbc.com).

## **CHAPTER 1 - 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?

Their value stems from their considerable technical expertise in both financial and statistical issues combined with a strong sense of ethics and professionalism.

Perhaps one of the weaknesses of actuaries is that they can sometimes lack humility, believing that they are the only professionals who fully understand the 'financials' of pensions, life, general insurance and investment.

It is also possible to say with hindsight that Actuaries have not responded to new developments positively or quickly and have even been encouraged by the idea that this is the kind of stereotypically conservative response that would be expected of the profession. The communication challenges arising from the evolution of the wider financial services industry have also not been tackled as successfully as they might have been. Perhaps the profession has thought that it would be out of place for its ideas to be put forward in too accessible a format or to too wide an audience.

We believe that actuaries are very well equipped for the roles that they perform and are continuing to confront and remedy the weaknesses identified above.

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?

We consider that appropriate areas for further actuarial involvement include; corporate finance; general business planning; risk management for non-financial enterprises and institutional investment.

We have not identified any area of work that ought to be left completely to other professionals.

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?

Yes, actuaries have the appropriate training, experience and professional accountability and integrity to undertake the requirement of the Scheme Actuary role. We have insufficient experience to comment on other statutory roles.

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

We do not believe that reserved roles have had a material impact.

Historically, it is true that those in reserved roles were sometimes seen as the font of all knowledge. However, as in other professions, such status has been subject to increasing scrutiny and actuaries in senior positions are now more mindful of their responsibilities than their personal status. Over the last ten years or so the profession has embraced other professions and worked closely with them. This is clear in the number of actuaries who now work outside the traditional areas, and highlights that actuaries can and do work well with “non-actuaries”.

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?

Yes, we do.

There is, however, a balance between extra layers of bureaucracy and its associated cost, and the additional benefits that may bring. As ever, it is difficult to legislate to try and prevent the few who want to bend or break the rules, without restricting the majority whom don't.

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

The actuarial profession should work more closely with accountants and auditors than is currently the case.

However, the profession also needs to continue to improve from within through a review of aspects such as recruitment and educational standards.

### **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?

To a limited extent. Actuaries do not normally control the marketing of such products and the profession did issue warnings regarding, for example, the pensions mis-selling debacle.

The purpose and nature of some products was not communicated properly. Commercial pressures, especially the commission culture, continued to drive sales long after the problems were clear to many in the industry.

In future the profession should present its concerns about such matters in a way which would make it far more difficult for those concerns to be sidelined by Government or others.

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?

We believe that, first and foremost, actuaries should be accountable to their clients – the people to whom their advice is addressed.

There wasn't a clear consensus within the firm as to whether actuaries are sufficiently accountable for their actions. Scheme actuaries generally felt that there was sufficient accountability in respect of their particular role.

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?

There is currently a lack of clarity in this area. Some actuaries feel more accountable to some parties than others depending on their area of work and their interpretation of the professional guidance and relevant regulations.

It must be recognised that actuaries can't simultaneously be accountable to their client, the public, the regulator and their employer without at times failing one or more of them. A balance needs to be struck between a wide ranging duty of care and the associated conflicts of interest.

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

We feel that actuaries are sufficiently liable and that compensation should be paid to the client.

## **The Profession**

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

The profession engages with these groups in a more effective way than is generally appreciated. This gap between perception and reality needs to be addressed. The profession has now also recognised the need to be more proactive.

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

There is a wide range of views within our firm on this question. However, perhaps innovation in particular should largely be driven by the actuarial employers seeking to compete in a competitive environment?

The professional framework should at least enable and encourage innovation and competition amongst its members.

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

We do not feel that the profession has done enough, although we accept that there have been improvements in recent years.

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?

The dominance of the larger firms is carried over into the profession itself. This is not representative of the true diversity of the profession and tends to support the status quo commercially.

There is a role for greater "lay input" although this needs to be restricted to non-technical areas unless the lay member possesses complementary professional knowledge.

### **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?

These companies are a very important influence. The curriculum is evolving, as we believe it should, to meet the needs of employers, but this is proving to be a slow process. The current actuarial qualification still does not meet the real needs of a consultancy business.

An example of the positive influence of companies is the introduction of the Business Awareness Module as part of the 2005 Education Strategy review. The Business Awareness Module should assist students in understanding the business environment in which they operate and their professional responsibilities from an early point in their career.

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?

We believe that whilst it is technically sound there is too much emphasis on theory. In particular we note that the current (1999) syllabus does not adequately cover the following –

- Business awareness - at an early point in their actuarial career, we believe students should be introduced to the workings of the business environment;
- Communication skills – we note that the 200 Series covers letter writing but we believe this area needs updating and enhancing to include report writing, e-mails and drafting presentation slides;
- Management –the combination of work and studying requires students to effectively manage their time. We believe there is scope for specific training in this area or even a qualification concentrating on the management of businesses and people.

We note that our concerns in respect of business awareness and communication skills have been addressed in the 2005 Education Strategy review. In addition, it appears that there will be more emphasis on the practical aspects of a student's training via 'Work-based skills' but this will only be compulsory for students new to the Profession.

It could also be argued that the management issue is one for the individual employer to develop.

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?

On the whole, we believe that an average qualification period of 5 or 6 years is reasonable.

There will be isolated instances of students who would make excellent actuaries but who fail to qualify as they are unable to pass the exam in one particular area (one in which they will not practice during their career).

The 2005 Education Strategy review, where there is a choice of subjects to specialise in, should address this concern.

It is vital that companies ensure that an individual gains sufficient practical experience prior to qualification.

We recognise the value in the 2005 Education Strategy of considering the concepts of assets, liabilities and their management separately from the specialisation into appropriate and relevant fields. We believe this is better suited to current business needs than requiring detailed knowledge of all the areas of investment, life / general insurance and pensions (as per the 1999 syllabus). Having said that, excessive specialisation at too early a stage should be avoided.

It is still open to debate whether the introduction of the UK Practice Module (to replace Paper 1 of the 400 Series) will be a move that adequately tests the knowledge required in the specialist examination.

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

Generally we feel that education has kept up although the pace of change has been rather slow at times.

The profession needs to make sure that the education syllabus in particular keeps pace with the growth in the use of alternative financial instruments.

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

We think that the new syllabus is a positive development and will address some of the problems touched on above. Some concerns remain regarding the risk that we may create narrowly qualified actuaries, actuaries who are really only educationally “qualified” to work in those areas they have chosen to specialise in. It is important that the movement of such actuaries between the main areas of work is properly controlled.

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

We feel that there is sufficient diversity.

We have had some difficulty in interpreting the second limb of the question.

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?

On the whole, we feel that “ActEd” is now doing an excellent job although that is not to say that competition wouldn’t improve standards even further.

### **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?

We see the main drivers as having been legislation and a demand from business for a better understanding of risk

Overall, we expect demand to increase but perhaps not in traditional areas such as pensions.

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?

There is access to a wide range of providers although a significant amount of business remains concentrated amongst a very small number of the largest consulting firms.

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?

Switching between actuarial service providers is easy. However, when actuarial services are bundled with associated administration services, data transfer issues tend to make the process more difficult and time consuming.

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?

Generally, our experience is that there isn't sufficient understanding.

Whilst better communication on the part of actuaries may have some part to play in this a significant factor amongst our client base is that clients are simply not able to spend enough time trying to improve their understanding because of cost constraints.

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?

One of the main factors has simply been the significant growth in student numbers.

We see the likely future influences as being UK and EU legislation and Government Reviews!

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?

The size of the firm is a determining factor as is the nature of the role.

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?

Competition is, on the whole, healthy although there is perhaps a degree of inertia amongst the larger pension funds and their advisers.

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?

No.

### **International comparisons**

Q1.30 How are the skills and professionalism of UK actuaries and the UK actuarial profession regarded internationally?

Our experience is that the UK actuarial profession is very highly regarded.

Q1.31 How easy is it for actuaries to work across international boundaries?

We think that the skills set is internationally transferable.

Q1.32 Do you agree that there are lessons to be drawn from a consideration of the work of actuaries in Canada, Australia and the US? If so, on which aspects of the work of actuaries in these countries do you think the review should focus?

Our general view is that lessons could be learned.

We note that the work of the US Pensions Benefit Guarantee Corporation is of particular interest at the current time.

Q1.33 Are there any EU or other countries that the review should be considering in seeking to identify best practice?

We are not aware of any specific jurisdictions that should be considered.

### **Other professions**

Q1.34 Do you agree that the review can learn lessons from recent developments in the UK accountancy profession, for example, in areas such as standard setting or in the establishment of a single unified and independent regulator – the Financial Reporting Council?

Perhaps. However, we note that the accountancy profession was more fragmented and a significant number of actuaries are regulated by other bodies such as the FSA.

Q1.35 Are there any forthcoming EU directives or international accounting standards that are likely to impact on the actuarial role?

The EU 'IORP' (Pension Fund) Directive and the international accounting standards IAS19.

Q1.36 Are there lessons for the actuarial profession from comparison with the professional and regulatory framework of the legal profession?

In general we believe that lessons could be drawn from other professions.

Q1.37 Which other professions' regulatory models, and what aspects of them in particular, do you think the review should consider?

No specific models stand out in particular.

## **CHAPTER 2 - THE CURRENT REGULATORY FRAMEWORK OF THE ACTUARIAL PROFESSION**

### **The regulatory role of the Profession**

Q2.1 What should the objective of a regulatory framework for the actuarial profession be?

Standard setting; compliance setting; and running a disciplinary scheme.

Q2.2 What is your overall view of the strengths and weaknesses of the current self-regulatory approach as applied to actuaries by the professional bodies? Does it adequately protect the interests of consumers? If not, are there key aspects of the regulatory framework that you think should be changed? Is there too much emphasis on reserved roles for individual actuaries?

We believe that actuaries are respectful of the profession in its capacity as regulator and seek to operate strictly within the parameters of professional guidance.

Reserved roles are necessary in order to place responsibility unambiguously on the individual. The reserved role also ensures that only appropriately qualified and experienced individuals operate at that level.

Q2.3 Does the Profession's dual responsibility for representing its members to the outside world and regulating them in the public interest create a conflict of interest? Is this conflict acceptable?

We accept that there is some conflict but feel that it is possible to manage.

Q2.4 Are there areas where you believe the burden of regulation is disproportionate and should be reduced? Are there areas that you believe should continue to be self-regulated by the professional bodies?

We believe that self-regulation should continue to 'play a part' in the regulatory framework and that there is scope for a reduction in the regulatory requirements emanating from the FSA and EU.

### **Scope of actuaries' statutory or reserved roles**

#### **The role of the Appointed Actuary**

Q2.5 Do you think that the FSA's proposals to change the appointed actuary regime address the concerns that Lord Penrose raised in this regard? Is there a need to do anything further to address Lord Penrose's concerns?

We feel that the FSA's proposals to change the appointed actuary regime do address the concerns that Lord Penrose raised in this regard.

Q2.6 Do you have any other concerns about the role of actuaries working in life assurance?

No.

Q2.7 Do non-executive directors in life insurers have sufficient expertise and information available to them to enable them to challenge the actuarial calculations of the value of the insurer's assets and liabilities or whether policyholders are being treated fairly?

Probably not.

Q2.8 Will the FSA's realistic reporting basis make actuarial calculations more accessible for non-actuaries?

Not materially.

### **The role of the Scheme Actuary**

Q2.9 Should the Scheme Actuary's role be reserved exclusively for actuaries? Could other professionals provide similar advice?

Yes. At present other professionals do not have the appropriate training and experience to enable them to carry out this role.

Q2.10 Do pension scheme trustees have the expertise and information to question and challenge the advice of Scheme Actuaries? In the absence of effective challenge from trustees are Scheme Actuaries effectively making policy decisions by default on the distribution of benefits between different generations of pensioners and on funding strategies?

The Trustee boards of the larger pension schemes are generally in a position to have an informed debate with their actuary on funding and other issues. For smaller schemes Trustees will sometimes look for a strong actuarial recommendation which they then adopt as policy without perhaps fully understanding the issues. Having said that it has mainly been employers that have set funding strategies, often setting aside the actuarial advice and the views of Trustees. The contribution holidays of the 1990's are a good example of this. The distribution of benefits between different generations of pensioners is a function of funding strategy and so the comments above are relevant. The Government has also influenced the distribution by imposing benefit improvements on schemes and changing the priority order on scheme wind up.

Q2.11 Is there sufficient audit or peer review of the Scheme Actuary's advice to provide checks and balances on the influence that could potentially be exerted by the Scheme Actuary?

The current level of peer review varies by firm with the largest consulting firms having had formal systems in place for some time. The profession has been developing a mandatory system of peer review. This has already raised the profile of peer review and a number of smaller firms have acted ahead of the mandatory system.

Q2.12 To whom should the Scheme Actuary be accountable? What will be the effect of the intended removal of the minimum funding requirement on the potential for conflicts of interests if the same Scheme Actuary is advising both the trustees and the pension scheme sponsor? Is there a need for a separation of these roles?

The Scheme Actuary should be accountable to the trustees who have appointed him. The removal of the MFR has to be considered together with the introduction of the scheme specific funding requirement and the new rules governing employer debt on wind up. Overall the potential for conflicts will increase as the balance of power in the setting of a contribution rate shifts towards the Trustees. Trustees will no longer have to watch helplessly as an employer decides to merely fund a scheme to the (inadequate) MFR. The greatest conflict as ever will be experienced by Trustees that also represent the employer. Actuarial advice will influence the contribution rate decision to a much greater extent than under the MFR regime and some Trustees may feel that in some situations this advice needs to be seen to be wholly independent of the employer. Generally we do not think that separate actuarial advice should be a requirement because this will inevitably increase costs. We do however expect separate advisers to become much more common as the new regime beds down.

Q2.13 To what extent has actuarial advice contributed to the way occupational pension schemes are funded in the UK? How will the Pensions Bill 's proposals affect the role and power of actuaries advising pension schemes sponsors and trustees?

To the extent that actuarial advice has influenced contributions the affect has been significant. However, as noted above, it was and still is very common for actuarial advice not to be fully reflected in contribution rate decisions. The bullish sentiment of the 1990's was not easy to talk down as employers generally saw an opportunity to improve short-term profitability. The surplus regulations were, often with justification, cited as a driver for contribution holidays and benefit improvements that with the benefit of hindsight were not affordable. Also, the introduction by the Government of a funding standard instead of a solvency standard did not empower Trustees or otherwise bring any pressure to bear on employers to begin funding schemes properly again until it was too late.

Having said that the recent severe and prolonged period of negative investment returns was not anticipated and perhaps actuaries should have placed more emphasis on the importance of asset allocation and matching. Although advice as to mortality can only lag the studies that are carried out the extent of the improvement was not foreseen.

Under the proposals of the Pensions Bill the role and power of actuaries in advising the Trustees will be strengthened. Employers will not be able to hide behind the MFR and the actuary will be at the heart of the funding debate that will ensue its absence.

Q2.14 Are there any other issues relating to actuaries ' statutory or non--statutory roles in advising pension fund trustees and pension fund sponsors that you would like to bring to the attention of the review?

The legal advice, from Herbert Smith, on conflicts is an important current issue.

## **General insurance and the role of the Syndicate Actuary**

This section was not answered due to lack of experience in this area.

[Qs2.15 – 2.17]

## **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?

We would like to see a greater distinction between the role of the Scheme Actuary and the investment advisor. The Investment Advisor role, which is open to both Actuaries and non-Actuaries, should be a statutory role with the same level of responsibility as the Scheme Actuary. This would imply that the Scheme Actuary would concentrate on the liability aspects and future funding, and the investment advisor would concentrate on the statutory aspect of the investment strategy. At present the situation is muddled.

Actuaries specialising in investment could educate their colleagues in other parts of the profession regarding the suitability, or otherwise, of investment products.

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?

The Institute should not regulate investment business at all. Many firms such as ours are regulated by the FSA, which can be a much tougher body than the Institute. We strongly believe that all investment advice given by actuarial firms should fall under the FSA.

## **Maintenance of professional competence**

Q2.20 Is there the right balance between the Profession issuing practising certificates and regulators giving their approval?

Practising certificates are a necessity for the key statutory roles – to ensure that individuals are competent, able to do the job and are keeping up to date. This should remain the remit of the Profession.

Q2.21 In your view are the current CPD requirements and the provision of CPD appropriate?

Yes. However, we note that the CPD requirements under FSA regulations are more onerous than the Profession's and this should perhaps be reviewed.

Q2.22 Do you support the Profession's proposals to extend the concept of practising certificates to cover all actuaries who give advice on actuarial matters?

Yes.

Q2.23 Are there any other changes to the CPD programme that you would like to see?

See the other answers in this section.

### **Whistle-blowing**

Q2.24 Are there appropriate legal and professional duties and safeguards for disclosures by actuaries to protect the public interest in regulated sectors?

The duties are certainly there but in practice the safeguards for the actuary making the disclosure are not as comprehensive as they need to be to encourage the appropriate level of disclosure.

Q2.25 Is it sufficiently clear to actuaries and others when they should report concerns to the regulators and the Profession?

We welcome the relaxation of Opra's reporting requirements.

The profession has taken steps to actively encourage members to report unprofessional behaviour by their peers. It is now clear that failure to do so when appropriate leaves a member as much at risk of disciplinary action as the member whose original behaviour fell short of the required standards.

Q2.26 Is there an appropriate level of disclosure by actuaries to protect the public interest?

As noted elsewhere we believe that individual actuaries duty of care to the public is presently unclear and so it is difficult to comment as to whether the level of disclosure is appropriate.

### **Standard-setting**

Q2.27 Does the Profession's technical guidance, as set out in the Manual of Actuarial Practice, provide unambiguous, up-to-date and clear standards for practising actuaries and other professionals e.g. auditors, who work with them? Do you agree with Lord Penrose's view that professional guidance in the past has not protected policyholders' interests?

The MAP requires actuaries to exercise professional judgement. This is appropriate and should be allowed to continue but that judgement should be open to greater challenge and scrutiny. To make the profession more prescriptive would remove much of the value added by actuaries.

It is true to say that the MAP is not always clear. Having said that, the profession can only operate within a legislative environment which itself is very unclear and it is not appropriate for technical guidance to attempt to remedy this.

Q2.28 Does the technical guidance need to be updated more regularly and are fast-track processes required to provide guidance on urgent issues?

Yes. However, there are already fast-track processes in place.

Q2.29 Who should provide the guidance: the Profession, the regulators or the government?

The profession.

Q2.30 Is there a need to reduce the level of discretion permitted within the guidance to come to some generally acceptable professional practices?

There is a need for this in some areas but it is important to continue to allow actuaries to exercise professional judgement.

Q2.31 Will the Profession's own proposals for an actuarial standards board go far enough to improve the quality and timeliness of standard setting to protect the public interest? Is there a need for even greater independence from the profession or a statutory underpinning to bring greater credibility to the technical standard-setting process?

We believe that the proposals do go far enough but only time will tell.

Q2.32 Does the Profession work closely enough with other professions e.g., accountancy, to ensure that its standards are widely recognised and to influence other profession's standards where appropriate, and to ensure that there are no regulatory gaps or overlaps in standards?

We believe that the profession does work with other professions but are not clear how closely.

### **Openness, peer review and audit of actuarial work**

Q2.33 Do you agree with Lord Penrose's assessment of the lack of openness and transparency of the profession to non-actuaries, including other professionals, and their clients?

Currently no, although this was an issue in the past. No doubt some individual actuaries still enjoy the ivory tower and quill pen image but the majority strive very hard to engage their clients in actuarial issues. Indeed a failure to do so would be unlikely to lead to commercial success.

Q2.34 What steps can be taken to improve communications between the actuarial profession and their clients or other professionals?

A number of steps are already being taken and have been discussed in other parts of this questionnaire.

Greater commitment is also required on the part of Trustees and other consumers of actuarial services.

Q2.35 Given the Profession's recent proposals on peer review, and the FSA's proposals for the reviewing actuary function in life assurance, will there be an appropriate level of peer review and scrutiny in the actuarial profession to protect consumers' or policyholders' interests in the future?

We believe that it's a question of 'time will tell'. Also, we repeat the point that the wider question of accountability has to be resolved to ensure that the nature of the peer review is consistent with its objectives.

Q2.36 When should actuarial opinions be directly addressed or otherwise communicated to members of the public, such as policyholders or scheme members?

The current system has not been effective in that it relies too much on members taking the initiative to establish what the opinion is.

There are arguments put forward that such disclosure would confuse and/or alarm members. This may be true in the short term but things will settle down if well-presented disclosure were to become the norm and members' understanding improved. The frequency of disclosure should be set having regard to the additional costs of administration. In the context of occupational pension schemes a statement following the triennial valuation would seem sufficient.

Q2.37 Is there a need to further widen the scope of actuarial activities that are subject to peer review or other forms of scrutiny –for example into Lloyd's syndicates and general insurance?

Yes.

### **Monitoring, complaints and disciplinary schemes**

Q2.38 Do the new disciplinary processes implemented by the Profession from 1 January 2004 address the issues that Lord Penrose raised?

We believe that the new processes do go a long way towards addressing the issues and will hopefully, in due course, improve the public image of the profession.

Q2.39 Is the Profession's past record of 17 complaints over 15 years a sign of a successful profession or an indication that monitoring and disciplinary procedures were not effective?

There were mixed views within the firm.

Q2.40 Should the review consider whether a fully independent disciplinary process is needed?

It would be reasonable for this to be considered.

Q2.41 In the accountancy profession the joint monitoring unit verifies whether firms are complying with audit standards. Given Lord Penrose's criticisms and the long-term nature of actuarial advice, is there a need to move away from reactive complaint-driven disciplinary procedures to a more proactive regime of monitoring of compliance with professional actuarial standards? If so, who should have responsibility for overseeing the monitoring and disciplinary proceedings and who should bear the associated costs?

We believe that the new peer review system should be sufficient.

Q2.42 Should discipline be undertaken by the Profession or by regulators?

Generally the profession, but it depends on the circumstances.

Q2.43 Do regulators make appropriate use of actuarial expertise to supervise the work of actuaries?

Opra certainly does, but not other regulators.

### **CHAPTER 3 - ROLES AND RESPONSIBILITIES OF THE GOVERNMENT ACTUARY'S DEPARTMENT**

Q3.1 What is your relationship with the GAD? Have you used, or do you currently use the GAD's services? If you are a client of GAD, have you put the provision of actuarial services out to competitive tender? If not, what process do you use and why is it preferable?

No relationship, but GAD occasionally advises the other side on a corporate transaction.

Q3.2 If you are currently, or have been in the past, a client of GAD's are you satisfied with the quality of service that you receive (d) from the GAD? How could it be improved? If you also have experience of working with private sector providers, how does GAD's service compare to that of private sector providers? Do you have any comments on the basis on which GAD charges for its services?

No comment.

Q3.3 The Government Actuary plays a public interest role in reporting to Parliament on social security matters and preparing the national population projections. Are you satisfied with how this role is currently performed? Could the market or anyone else perform these functions?

No comment.

Q3.4 Are there any other services, which are better, provided by the GAD and/or the Government Actuary than by other providers of actuarial services?

Possibly a regulatory/disciplinary role.

Q3.5 In your view, which of the 10 reasons in para. 3.20 highlighting the rationale for a separate GAD remains valid? Are there any other reasons for maintaining the GAD as an independent entity?

Overall, we think that reasons 1,2,3,6,7,8 remain valid; 9 and 10 maybe also.

Q3.6 Overall, in your view is there a continuing need for a separate GAD? Are there alternative institutional structures for the provision of actuarial advice to government departments, Ministers and the wider public sector that the review should consider?

Yes. Only the large consulting firms would have the resources to provide an alternative to GAD.

Q3.7 If you think that GAD should not remain as a separate entity, do you think there would still be a continued need for the role of the Government Actuary?

N/A

Q3.8 How does the GAD compare with structures used in other countries for the effective provision of actuarial services to government?

No comment.