



CheckleyFisher LLP
CONSULTING ACTUARIES

Response by CheckleyFisher to the Interim Assessment of the Morris Review

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1 Introduction and Summary

The Interim Assessment of the Morris Review sets out a number of issues facing the Actuarial Profession and provides options to address many of those issues that are key.

In general, we agree with the points made. However, there are some areas that we believe the Review is in danger of taking the wrong direction. CheckleyFisher is therefore responding to the Interim Assessment. We only comment on those points where we have relevant experience or strong views. We make no comment on the remaining areas.

Our fear is that the Review will “go soft” on scrutiny and accept the Professions’ proposals (which are inadequate), whilst it will “go tough” on accountability to the public, leaving actuaries facing difficult conflicts of interest, not being openly challenged and being restricted to a purely regulatory role rather than developing their skills to service wider commercial interests.

Any questions should be addressed to Richard Nobbs at the address on the covering page or via e-mail at richard@checkleyfisher.com.

2 Responses to the Points Raised:

The actuarial profession has a great responsibility for the welfare of insurance companies and pension funds. However, there has been considerable change in these industries over recent years and the demand for new actuaries is limited. Therefore, the responsibility largely falls on current actuaries and most of our comments are generally aimed at strengthening the infrastructure in which we work.

Paragraph	Comment
2.117 – 2.137	<p>Encouraging external review of actuarial advice by another actuary and/or an auditor is the best way to improve standards. Exposure of insurance companies and pension schemes to other actuaries will vastly improve scrutiny, make market testing considerably easier and help relieve market concentration.</p> <p>CheckleyFisher believe that the best ways to encourage external review are:</p> <ul style="list-style-type: none">○ Unbundle services (as per option 2 of para 2.120)○ Ensure that the advice given to pension scheme sponsors and trustees in prescribed circumstances is given by different firms of actuaries○ Introduce external actuarial audit requirements of triennial actuarial valuations for pension schemes above a prescribed size (say £25m) with internal peer review for those below the prescribed size (an enhancement of option 4 of 2.132). External actuarial audit will improve debate and hence user understanding, particularly if the requirement not to criticise another actuary is augmented by a requirement to objectively challenge another actuary’s advice and point out alternative courses of action where appropriate. It is also likely to improve the clarity of advice as the market will support those actuaries that can provide clear, concise and pragmatic advice (option 1 of para 2.135).
5.28	<p>The requirement for whistle-blowing should be restricted to statutory roles only. For non-statutory roles whistle-blowing should be encouraged (with relevant protections given). If whistle-blowing is made mandatory for non-statutory roles, then there is the potential that this could conflict with client interests, which we believe are paramount. For a statutory role, the client is ultimately the pension scheme member and so whistle-blowing is consistent with their interests.</p>
5.96	<p>The role of adviser to the sponsor and to the trustees should be separated between different firms of actuaries in clearly defined circumstances (an enhancement of option 3). Whilst the paragraph says “the imposition of</p>

a rule that required the separation of advice would then prevent clients from achieving an outcome that in many cases has caused no difficulty”, this is in an environment where there is:

- Little market testing
- Little user understanding
- Unclear advice given on a regular basis

It is no wonder there are few cases where difficulty has been encountered if the parties are not fully aware of the issues! With the lack of confidence in the profession, a completely open approach must be adopted.

The costs of separating the roles are not as high as may be suspected. It is not necessary to duplicate a complete set of actuarial calculations unless the circumstances merit it. Advice can be restricted to points of principle. The terms of reference and the actions required should be agreed between the parties and the actuaries before any exercise is carried out to make sure costs are appropriate.

- 8.11 Given that it is individual actuaries who are responsible for the advice that they give, it is inconsistent that monitoring should be on a firm by firm basis, as argued by the Profession. We would expect any monitoring to be based on an individual by individual basis using a risk based methodology, which would include which firm the actuary worked for.
- 8.21 Whilst we would expect the Pensions Regulator to look more closely at larger schemes, a proper actuarial audit would provide considerably greater comfort as it is likely to go into more detail and identify a wider variety of issues. The actuarial audit report would then be of use to the Pensions Regulator to assess whether any regulatory involvement is merited. Relying on the regulatory involvement alone risks another “Equitable Life” where GAD came in for criticism.
- 8.63 Internal peer review (where the client is the actuary) is considerably weaker than external audit (where the client is the trustee). Most actuarial firms already apply internal peer review and have done so for many years. The Professions proposal for peer review is, in effect, a no change proposal and we therefore support option 4 for schemes above a prescribed size (say £25m).

We would also mention that actuarial software (paras 2.7, 2.38 and 2.125) is relatively cheap to acquire and operate. Indeed, we provide actuarial software to several clients with under £50m of assets and also to other actuarial advisers (including one of the largest accounting firms and a statutory authority). We are unsure why actuarial code should be a barrier to switching but suspect it is due to a lack of market testing.