

Morris Review of the Actuarial Profession

1. I am responding to your Consultation Document as an actuary who has worked almost his entire career in management posts in composite insurance companies. Indeed I entered the profession, as a maths graduate, specifically to enter into management.
2. In over a career of over 34 years I had senior executive positions in investment management, general insurance and in life insurance. When a merger meant that in 1998 I could take early retirement I sought and achieved election to the Council of the Institute of Actuaries. Only then, when I had a portfolio of part-time employment including as an Insurance Adviser with the Financial Services Authority did I consider that I had the time to give to Council membership.
3. I have recently been re-elected to Council. During my time on Council I have served on the Life Board, the Communications Board, the Finance and Investment Board, the Professional Affairs Board and I have now just been appointed to the General Insurance Board.
4. In consideration of your terms of reference, it is important that you take careful note of both members of the profession who work in professional roles, whether as consultants or employed and those in management roles. It would be dangerous for the continued existence of the profession, small as it is, if as occurs in the legal and accountancy profession, those who move into management roles leave the profession. Even before your review, I have said in Council that I can envisage circumstances in which I do not die as a member of the profession. More dangerously, I can conceive of circumstances in the past in which I would have left the profession, albeit that I could always claim to have trained as an actuary.
5. The dangers for the profession are twofold. First, that its income stream would diminish. Even now our subscription is considerably higher than for other, larger professions. Second, that it would be diminished in public stature if such leaders of the financial services sector as Sir John Carter (ex CEO of Commercial Union), John Coomber (CEO of Swiss Re), James Crosby (CEO of HBOS), Richard Harvey (CEO of AVIVA), David Prosser (CEO of Legal & General), Keith Satchell (CEO of Friends Provident) and Lindsay Tomlinson (CEO of Barclays Global Investors) left the profession, not now but when they committed themselves to careers in management.
6. The most critical area will be the role of Continuous Professional Development (CPD). This is becoming more of a requirement and there is nothing wrong with that for those acting in a professional role. Indeed it is to be welcomed. However the skills to be developed after qualification by a management cadre of actuaries are quite different.
7. There is a second practical issue around CPD. For a professional working in, say the field of pensions, there will be years when legislation and/or regulation change significantly. This may be infrequent but when it happens it is likely to require considerable CPD to remain competent. In other years, little may change, though there will be opportunities to seek new ways of working but even so a lesser commitment to CPD may be necessary. So an annual target may be tricky. It has to be sufficient to ensure that the professional does not switch off from maintaining and upgrading his or her skills but also flexible enough to allow for changes in need from year to year.
8. In a modern litigious world, it does appear that all professions and in particular this one which deals with many long-term issues, have difficulties in developing their science. The problem is that any change may be greeted by a claim 'But you did it differently last year and if this is right last year must have been wrong' and 'the compensation claim is on its way'! I do encourage you to read the guest editorial by Australian academic actuary Greg Taylor in the British Actuarial Journal Vol 8 No 5 2002. In this he sets out why in science and academia it is easier to set up new hypotheses and new ways of working than it is in a profession.

9. By setting up an Actuarial Standards Board, this problem of changes in practice and the dangers of litigation may be avoided. It is important that the members of such a Board are qualified to understand the issues which will require experts from the actuarial side. The Board should also contain users of actuarial advice. The Accounting Standards Board appears to be able to obtain this mix but in part that relates back to my earlier point about those who qualify as accountants, then work outside the profession. They are then important, and crucially knowledgeable users of the accounting standards set. It will not be as easy to gain the same user involvement in setting standards and in responding to Actuarial Exposure Drafts.
10. Before turning to specific questions in your Consultation Document, I do question some of the uses in it of the words 'the Profession'. E.g. Qns. 1.11 to 1.15. (A minor point but is there any significance in the use here of Profession with a capital letter and lower case in Qns. 1.36, 2.1 and 2.3?) In many cases, I think the reference should be to 'the leaders of the profession' or 'the spokesmen for the profession'. Otherwise the second sentence in Qn 1.18 is circular as the 'Profession' comprises its members. It is important to make a distinction of this sort because the process of issuing guidance to members has proved problematic on occasion, because of a search for unanimity or overwhelming consensus. Hence, the process of issuing guidance can be slow and result in a lowest common denominator solution.
11. **Qn. 1.2** I do not think it is for you to decide where actuaries should work. Nor do I think it is for the profession either. Rather this is a matter for individuals to use the skills they have and to offer them where they find interesting and rewarding work.
12. **Qn 1.14** The issue of professional actuary or actuary working in a management role arises again here. I find it difficult to see why an employed actuary has any greater responsibility than any other member of a management team involved in the design, marketing and selling of an insurance or investment product. If the profession's conduct standards do, as is the case in some areas currently, impose standards above those required by regulation on 'approved persons', then again one can see an exodus from the profession.
13. **Qn 2.3** Whatever the answer to this question, it must surely apply to all professions. You could ask the same question of the Law Society, the General Medical Council and of the governing bodies of other professions from Architects to Vets.
14. **Qn 2.7** It is not right to ask this question of an individual non-executive director. It has to be posed in the context of a board of directors in its entirety. I understand this is the position of the FSA i.e. the board in total must have the range of skills and experience to manage the company but no individual director is likely to possess all that is required.
15. A good non-executive director will cope, if by no other means than by repeatedly enquiring of management along the lines of 'I may be being stupid, but I do not understand. Please can you explain again for me?' It may be desirable but it should not be essential for boards of life insurance companies to have at least one non-executive, and preferably 'independent' director as per the Combined Code, who has an actuarial qualification.
16. The independence of directors may be crucial. It has been the practice in respect of their UK subsidiaries for UK financial groups, from the biggest multinational banks to relatively small building societies, for the only non-executive directors to be executives in the parent body. This will, in some occasions mean that there is a deficiency of independent and knowledgeable oversight of management. It was concern in this respect that led, I believe, to my appointment to the board of HSBC Life UK as an independent non-executive director.
17. It is important not to add to the growing and worrying tendency to create a two-tier board. One can see that the two executive directors of Equitable Life, who were

actuaries but not responsible for actuarial work, might be unwilling or even feel incapable of challenging the actuarial submissions to the board. Nevertheless under Company Law they were equally responsible for board decisions in this area and could have been invited by the non-executive directors to explain to non-actuarial members of the board what they understood by what was being proposed. In a well run board they would have been encouraged to do just that. The problems at Equitable Life are not generic but represent a failure of individuals.

18. **Qn 2.12** The Pensions and Professional Affairs Boards have been debating this issue of conflicts of interest over the past 8 months with the benefit of external legal advice. No doubt the response that you receive from the leaders of the profession will cover this in detail. I merely point out:
1. There are more fundamental conflicts than those facing actuaries who advise both the sponsoring employer and the trustees. Especially in small companies, owners and senior managers may represent a significant part of the liabilities of the fund and be trustees.
 2. There is no de minimis exception within case law for the acceptability of conflicts of interest. Yet it is arguable that for very small defined benefit schemes, the costs of two scheme actuaries may be excessive. A precedent here may be the FSA's approval of the same individual being the With-profits Actuary and the Actuarial Function head. Whilst the FSA rules and guidance do not make a size distinction here, I know that the argument for this relaxation was on cost grounds for small life insurance companies and friendly societies.
19. **Qn 2.19** I was the sole member of Council to vote against the Institute (and it is only the Institute that is a designated professional body as the Faculty decided not to seek that status) deciding to become a designated professional body. I believed then, and still do, that the risks were than borne by the members as a whole, whereas it would be fairer for them to be borne by the consulting firms seeking to take advantage of this approach to regulation.

D I W Reynolds

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