

The Morris Review  
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10 September 2004

Our Ref: FM/JA .a6

Dear Sir Derek,

**Re: Morris Review of the Actuarial Profession:  
Deloitte Response to Consultation Document**

Please find attached our response to the questions raised in the consultation document relating to your review of the actuarial profession.

Deloitte is one of the ten largest employers of actuaries in the UK. Our practice comprises partners and staff practising in all key markets including the life assurance, general insurance, pensions and investment industries, as well as being thought leaders on a number of more recent developments in the actuarial market, in particular the application of financial economics theory.

We expect many organisations will be responding to the consultation document, including the Institute and Faculty of Actuaries, and we would expect certain of these responses to cover the various legacy issues and the entire current situation in depth. We also believe that comments on topics such as monitoring, complaints and disciplinary schemes and education are best dealt with by the profession, based input from individual firms, in the first instance. We have therefore taken a selective approach and focused our response to those questions that you have raised which are forward looking and relevant to our own activities.

We also greatly appreciated the opportunity to discussing various issues with your team at our offices on 21<sup>st</sup> July, and we hope you found our oral representations helpful. At that meeting we also touched on many of the areas we have not responded

to formally here, and notwithstanding our comments above, if you would like further representations from us on any of the matters not specifically covered in this letter, we would of course be delighted to discuss your requirements.

Firstly, we feel that much of the criticism currently levelled at the Profession is ill-informed and misguided. The vast majority of actuaries take very seriously their responsibilities in respect of the financial well-being of the businesses with which they are associated, and many have in the past made themselves unpopular by seeking to dampen a pervasive exuberance that has now led to some of the legacy issues which form the background to your review.

Where there have been shortcomings in the past, an underlying factor will often have been the difficulties arising when one individual seeks to manage the conflict between his or her responsibilities to two principals (e.g. policyholders and shareholders in the context of life assurance, the sponsoring employer and trustees in the context of pension plans), especially when for all practical purposes he or she is the employee or agent of one of these principals. In both life assurance and pensions many of these conflicts have already been addressed through proposals for the separation of roles, for more extensive peer-review procedures and the call for greater clarity from individual professionals and firms in the way that they manage conflicts.

There is a case for a formal ethical framework to be developed for the actuarial profession, with a training programme on how to identify and manage such conflicts. Where apparent conflicts remain, it is important that such peer review, or separation of roles, be carried out by a demonstrably independent party (subject to our comments on the desirability for a proportionate response, see section 2.11 of the appendix to this letter).

We also believe it would be helpful for you in looking at any failures to communicate actuarial advice in the past to distinguish between cases where the actuaries were at fault, and cases where the recipients of their advice used the cloak of actuarial abstruseness in advancing their more general commercial interests. On occasion this reflected a reluctance by management to have their judgements second-guessed by the Board, a factor hardly unknown elsewhere in the corporate world. On others, actuarial advice may have been selectively taken out of context and used with disingenuousness. Whilst actuaries should be sensitive to such potential misuse, and should be careful to ensure that their advice is balanced and objective, they are not able to control how their clients communicate their conclusions to others.

We have responded to the questions raised in section 2 of the consultation document relating specifically to particular areas in which actuaries practise, and to a limited number of the other questions raised. We also have some more general observations relating to the current regulatory framework, as follows.

- We believe that from a technical perspective any appropriate regulatory framework for the profession should provide a set framework of prescribed

principles. Regulation should not be inflexible and excessively rule-based. To the extent that discretion and/or professional judgment is required (and in our view there are many instances where this will be an enduring feature of actuarial advice) the advice should always be balanced and objective and should include full disclosure of assumptions and methodologies and of the underlying rationale for their conclusions. Firms should have proper quality assurance processes including an internal concurring or peer review of the advice before it is issued<sup>1</sup>. This general approach should be applied across all areas of actuarial practice. We consider that the profession is best placed to provide actuaries with this technical guidance, within a legislative framework set by government and input from a regulatory body.

- We believe the current approach of having statutory roles for named individual actuaries encourages the provision of good advice by imposing personal responsibility over and above the service quality imperatives required by their employers.
- Where actuaries have whistle-blowing responsibilities these need to be clearly defined, and the actuary needs to be protected. In the pensions consulting field Scheme Actuaries routinely make reports to OPRA, and the system is generally effective.
- Actuarial advice is by its nature complex. It is not normally possible to reduce that advice to the kind of “sound bite” report that would be read and understood by the public without the public attaching far greater assurance to the report than warranted by the inherent uncertainty underlying the report. Accordingly, any temptation to increase the extent of public reporting by actuaries should be resisted. Such an extension would increase the burden placed on actuaries without any commensurate public benefit – indeed it could lead to the public becoming even less informed about the risk underlying actuarial based products.
- As regards actuaries’ responsibility for their work, we believe the current legislative and contractual framework governing determination of reliance by third parties on actuarial advice, and liability for individual actuaries and their employers for such advice, is sufficient. Any extension of responsibilities of actuaries would, in our opinion, be onerous and disproportionate particularly in a market in which meaningful professional indemnity cover is unavailable.

We believe that whilst there have been failings in the past, the Profession is taking many of the steps needed to establish the right framework, and has an essential role to play in helping to safeguard the financial future of many millions of pension fund members and policy-holders.

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<sup>1</sup> The issues of quality assurance in small firms or sole practitioners are similar to those faced by the audit profession, which has developed relevant guidance.



If you have any queries regarding our response, or would like to discuss these issues in greater depth, please contact either of the signatories of this letter at the above address.

Yours faithfully

A handwritten signature in black ink, appearing to read "Jan Kamieniecki".

Jan Kamieniecki  
Partner, Deloitte & Touche LLP  
Practice Leader  
Actuarial & Insurance Solutions

A handwritten signature in black ink, appearing to read "Feargus Mitchell".

Feargus Mitchell  
Partner, Deloitte & Touche LLP  
CEO, Deloitte Total Reward and  
Benefits Limited

## Appendix

### Chapter 1

#### The Current Role of Actuaries

1.1	<p>What do you see as the main value provided by actuaries and, conversely, what are their weaknesses?</p> <p>In general, are actuaries properly equipped for the roles that they perform?</p>	<p>Actuaries fulfil a central role in the assessment of long-term liabilities by financial institutions such as pension funds and insurance companies and in setting a strategic framework for the funding of those liabilities.</p> <p>The training that actuaries undergo is now adequate in terms of technical content. The profession could in retrospect have reacted more quickly to the advent of modern financial economics and there may still be a lag as these ideas are absorbed. It is unfortunate that the amount of technical training that actuaries undergo often leaves little time for training in management skills and other broader areas in the early years of a career.</p>
1.2	<p>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?</p>	<p>This should essentially be market-led.</p>

1.3	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?	<p>We believe that a useful purpose is served by retaining the current requirement for certain roles to be reserved for actuaries by statute. A level of professional competence in complex technical areas is needed for this role, and from a practical (and cost-benefit) perspective we consider that the existing structure is sufficiently sound to be a good starting point for whatever improvements may be judged necessary. A totally new framework for assessing the qualifications of individuals fulfilling those expert roles seems to be a disproportionate response.</p> <p>Specifically, the current statutory roles in Life Insurance and Pensions require the detailed technical training that actuaries undergo. It is instructive, for example, that the FSA is boosting its own internal actuarial resource so as to be able to better monitor developments in the Individual Capital Adequacy regime for life insurers.</p> <p>In general, therefore, where the public interest requires work to be done that needs detailed technical input on long-term liabilities and assets such that is part of the actuarial training (such as assessing the funding of a life insurer or pension fund) then it should be efficient to reserve such roles by statute to an actuary.</p>
1.4	What impact, if any, has the existence of reserved roles had on the effectiveness with which actuaries work with non-actuaries?	–
1.5	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?	<p>We welcome the Profession’s initiatives in this area, to which we hope to contribute to ensure that the eventual outcome is appropriate to ensure a regime that does not result in a system that is “unduly burdensome” (to use the phrase adopted by the FSA when considering the justification for a waiver from their Rules).</p> <p>It should also be noted that in some areas, for example Life Insurance, the FSA is introducing what is effectively a statutory duty for Peer Review.</p>

1.6	Could other professions work more closely with actuaries or in related functions to help maintain and improve actuarial effectiveness?	<p>Actuaries frequently will work effectively with others, not only in multi-disciplinary firms such as ours, but also on one off projects such as mergers and acquisitions where teams of advisors from many professions will work closely together. Where there are failings they will generally be down to mundane problems of organisational management rather than any endemic actuarial disease.</p> <p>There are also formal links in place between the profession and e.g. accounting bodies, to ensure that e.g. actuarial Guidance Notes relating to accounting for pensions are appropriate.</p>
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## Accountability of Actuaries

1.7	<p>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?</p> <p>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?</p>	–
1.8	<p>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?</p>	<p>Individual actuaries and firms should remain accountable to their clients and to the profession should they fall short of professional standards. The public interest should be served through the Profession, in its standard setting and through Regulation as appropriate.</p>
1.9	<p>How would you characterise the current situation in the UK in this respect?</p> <p>Are there changes you would like to see introduced in terms of the accountability of actuaries to their employer or to the public interest?</p>	<p>We welcome the direction that the Profession is taking in terms of the Actuarial Standards Board. We believe that lay membership of this Board will be important in ensuring that the public interest is served.</p>
1.10	<p>Are actuaries sufficiently liable for their actions?</p> <p>If actuaries provide poor advice, to whom should they pay compensation?</p>	<p>We believe the current legislative and contractual framework governing determination of reliance by third parties on actuarial advice, and liability for individual actuaries and their employers for such advice, is sufficient (see also comments in our covering letter).</p>

## Entry into the Profession

1.11	How effectively does the Profession engage with government, business, regulators and other professions?	–
1.12	Has the Profession successfully expanded the horizons of actuarial knowledge and promoted innovation?	–
1.13	Has the Profession done enough to promote the work of the actuarial profession?	–
1.14	Are there any aspects of the Profession's governance structure that you would like to draw to the attention of the review?	–
1.15	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?	–
1.16	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?	–
1.17	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?	–

1.18	Has actuarial education and training kept up with developments, particularly in the financial markets and in financial economics?	<p>We believe that the actuarial syllabus currently covers the technical areas that are relevant to actuarial practice.</p> <p>Having said that, the profession could in retrospect have reacted more quickly to the advent of modern financial economics and there may still be a lag as these ideas are absorbed.</p>
1.19	Do you have any comments about the proposed new qualification syllabus that will come into effect in April 2005?	<p>See answer to previous question.</p> <p>The trend in actuarial training is to greater specialisation at an earlier stage. Historically, actuaries have had to demonstrate knowledge of specialised areas of practice other than their own. This broad knowledge base can be useful in suggesting possible approaches to new issues arising within their specialisation. While specialisation is clearly necessary to ensure the provision of quality advice, we would be concerned if this led to a blinkered approach and the lack of a broader perspective.</p>
1.20	Is there sufficient diversity in the composition of the student body and are there enough links with other professions' qualifications?	<p>We believe that the intake to the profession does not discriminate between suitably qualified applicants and that this is reflected in the composition of the student body.</p> <p>In terms of links to other professions qualifications, while actuaries may need to have some knowledge of e.g. accounting in their day to day work, they do not need to be qualified accountants. Indeed in our opinion it is not appropriate for actuaries to hold themselves out as qualified or quasi-qualified in other professions' areas of practice on the basis of their actuarial training.</p>
1.21	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?	–

## The market for actuarial services

<p>1.22</p>	<p>What have been the main drivers of demand for actuarial services over the last ten years?</p> <p>How do you see the demand for actuarial services evolving in the future?</p>	<p>The last 10 years have seen regulatory change in most domains in which actuaries operate in the UK, resulting in a higher volume of work for the profession. Some of this has been one-off, such as the introduction of new reporting systems or the resolution of historic problems such as pensions mis-selling, but much of the growth is down to a higher “business as usual” requirement. Whilst this is to some extent offset by a contraction in demand due to consolidation of life companies and the switch to defined contribution (or “money purchase”) structures for pension schemes, the transitional issues arising from this contraction have also generated demand.</p> <p>Generally, recent market events, including volatile investment markets which have exacerbated pension funding issues and problems encountered in the life industry with guarantees biting, have also highlighted the need for a more sophisticated approach to actuarial work going forward.</p> <p>In the long term the demand for actuarial services will mirror the success of the pensions and insurance industries, and other current and future areas where the market decides actuarial techniques, and actuaries are required.</p> <p>In other countries the fields of work in which actuaries successfully operate is perhaps more varied than seen in the UK – for example the important role actuaries play in the health arena in the USA, and in the energy industry in Australia.</p>
<p>1.23</p>	<p>Do the consumers of actuarial services have access to a wide range of providers or is choice in this market in any way constrained?</p> <p>If so, in what way and why is consumer choice limited?</p>	<p>There is a large number of firms providing consulting advice, ranging from large specialised consultancies and multi-disciplinary firms to niche players and sole practitioners. It is generally true that in some market sectors a limited number of firms may have a dominant role, but this can be attributed to the need for a certain critical mass in order to be able to provide a services in that particular market. This smaller number of firms does not in itself reduce competition however.</p>

		In our experience most significant assignments are put out to tender, and user choice can not be regarded as being limited.
1.24	Is it easy for consumers to switch between actuarial service provider? If not, what do you think could be done to encourage switching?	In our experience it is easy for consumers to switch between providers if they wish to do so.
1.25	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?	It is helpful to distinguish between professional, proxy and lay recipients of actuarial advice. In general professional recipients, such as pension fund managers and Directors of Insurance Companies will have an excellent grasp of the underlying issues and methodologies adopted and will have a productive dialogue with their adviser. In the past “proxy” users, such as Pension Fund Trustees and non-Executive Directors of Insurance Companies may have had a higher level view of the advice that they have received, frequently filtered for their benefit by others, but are increasingly proactive in seeking to understand the nuances. Lay recipients continue to rely on their proxies and on other commentators, and this is inevitable.
1.26	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?	Supply reacts to demand, but there is a generally a time-lag reflecting the time taken to train actuaries sufficiently specialised to meet the market’s needs.  There is also an increasing demand for actuarial talent from non-traditional employers of actuaries such as investment banks.
1.27	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?	External advice is sought for a number of reasons: <ul style="list-style-type: none"> <li>• Generally pension funds or small insurance companies may not find it cost effective to employ an actuary and provide all the support that actuary will need and prefer to use consultants.</li> <li>• Companies (large and small) may have a one-off need or project and prefer to resource it externally</li> </ul>

		<ul style="list-style-type: none"> <li>• Consultancies are better placed to develop new tools and techniques and will have had broader experience than is possible in a company, and even large employers of actuaries will regularly come to them for specialist input on particular topics</li> <li>• Some buyers of actuarial services will have a one-off need, such as in a merger &amp; acquisition transaction and will seek experienced external advisers for that one specific purpose.</li> <li>• Clearly, if a formal external opinion is required, external advice must be sought. Even if not formally required, in some circumstances obtaining an external opinion would clearly be best practice.</li> </ul> <p>Depending on the reason that external advice is being sought there may or may not be a difference in role and function.</p>
1.28	<p>What is your overall assessment of the degree of competition in the market for actuarial services?</p> <p>Is competition in any way constrained by existing professional rules or conventions?</p> <p>If so, which ones and to what extent could they be modified?</p>	<p>The level of competition is currently very healthy. We do not believe that professional rules or conventions currently constrain choice in any way.</p>
1.29	<p>Do you think that the Government Actuary's Department competes with private sector suppliers of actuarial services in the market?</p> <p>What impact do you think GAD has on competition in the market?</p>	<p>–</p>

## International Comparisons

1.30	How are the skills and professionalism of UK actuaries and the UK actuarial profession regarded internationally?	The UK profession has generally been viewed as one of the leading professions globally, and many of its initiatives have been followed elsewhere. UK consultancies have successfully expanded internationally, and London is viewed as a regional hub for actuarial advice in the same way as for other professional services and financial advisers.
1.31	How easy is it for actuaries to work across international boundaries?	<p>Demand for good quality actuaries remains high, and many talented individuals find it relatively easy to work abroad. There are significant numbers of UK trained Fellows working in Continental Europe and Asia, and an increasing number of actuaries principally from both the Old Commonwealth and Europe working in the UK.</p> <p>Knowledge of local regulations and market practice, and to an even lesser extent language, do not present a substantial barrier to motivated and able actuaries.</p>
1.32	<p>Do you agree that there are lessons to be drawn from a consideration of the work of actuaries in Canada, Australia and the US?</p> <p>If so, on which aspects of the work of actuaries in these countries do you think the review should focus?</p>	–
1.33	Are there any EU or other countries that the review should be considering in seeking to identify best practice?	–

## Other Professions

1.34	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?	As stated in 1.9 above, we welcome the direction that the Profession is taking in terms of the Actuarial Standards Board, and we will continue to contribute to these developments. It is axiomatic that the Profession should also consider relevant best practice in other professional bodies when framing policy.
1.35	Are there any forthcoming EU directives or international accounting standards that are likely to impact on the actuarial role?	<p>In the insurance market the development of International Accounting Standards is already changing the actuarial role in the production of accounts. Furthermore the ongoing development of Solvency 2 is likely to significantly increase the need for actuarial input into the financial reporting and management of life (and possibly other) insurers.</p> <p>In pensions practice, the EU pensions directive as incorporated in the Pensions Bill will have a significant impact on Scheme funding and administration. The move to IAS accounting, proposed changes to IAS19 and the adoption of FRS17 in full under UK GAAP will also be significant.</p>
1.36	Are there lessons for the actuarial profession from comparison with the professional and regulatory framework or the legal profession?	–
1.37	Which other professions' regulatory models, and what aspects of them in particular, do you think the review should consider?	–

## Chapter 2: The Current regulatory Framework of the Actuarial Profession

### The Regulatory Role of the Profession

#### Scope of Actuaries' Statutory or Reserved Roles

A general discussion of the points raised in questions 2.1 to 2.4 is included in the letter accompanying this response.

#### The role of the Appointed Actuary

2.5	<p>Do you think that the FSA's proposals to change the appointed actuary regime address the concerns that Lord Penrose raised in this regard?</p> <p>Is there a need to do anything further to address Lord Penrose's concerns?</p>	<p>We believe that the creation of the Head of Actuarial Function and the With Profits Actuary roles will enable conflicts of interest to be dealt with more explicitly and facilitate explicit decision-making by the Board. This together, with the increased support that the Profession will be providing to its members, if executed properly, should be sufficient.</p> <p>Lord Penrose's concerns over the role of non-executives is being addressed by the FSA's other initiatives.</p>
2.6	<p>Do you have any other concerns about the role of actuaries working in life assurance?</p>	<p>There is a temptation for some companies to present some of their actions as being driven by "actuarial" reasons when the underlying drivers are essentially commercial. Actuaries need to be vigilant against their role being presented in this way.</p>
2.7	<p>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?</p>	<p>In the past the role of non-executives in these areas was somewhat restrained. More recently there has been a tendency for Boards to include individuals with an actuarial background, to seek more training, and to take a more proactive approach to dealing with these topics. The introduction of the with-profits actuary role, and the requirements on Boards to satisfy themselves that the terms of the Principles and Practices of Financial Management are being met, will provide the Board with a further source of information upon which to base their decisions.</p>

		<p>The introduction of the With Profits Actuary and removal of the Appointed Actuary has taken away the personal responsibility on the latter of ensuring that the reasonable expectations of non-with profits policyholders were being met. It will be important to ensure that the responsibility on the Board as a whole to treat all customers fairly provides adequate replacement.</p>
2.8	<p>Will the FSA's realistic reporting basis make actuarial calculations more accessible for non-actuaries?</p>	<p>The new framework is to be welcomed as a considerable advance in aiding the understanding of the financial drivers of a with profit fund. The introduction of the regime was rushed, and a certain period of time will need to elapse before all users will be confident that they have meaningful and comparable information. However, although the results of the calculations will present a more accurate picture of the fund's constructive obligations, a full understanding of the underlying calculations (which are now more complex) is likely to elude the layman and this seems inevitable.</p>

## The role of the Scheme Actuary

2.9	<p>Should the Scheme Actuary's role be reserved exclusively for actuaries?</p> <p>Could other professionals provide similar advice?</p>	<p>Yes. They are the only people in the market currently with the formal qualifications, accreditation and specialisation required to provide such advice.</p> <p>No, not under current market conditions.</p>
2.10	<p>Do pension scheme trustees have the expertise and information to question and challenge the advice of Scheme Actuaries?</p> <p>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?</p>	<p>There is an increasing focus on trustee training, and increasingly trustees have adequate knowledge to effectively question Scheme Actuaries. The latest Pensions Bill contains clauses which will impose further knowledge requirements on trustees. It also needs to be remembered that trustees are generally lay volunteers, and the imposition of e.g. certification of trustees through compulsory examinations would have a significant deterrent effect, both to individuals considering becoming trustees (especially member-nominated trustees) and to existing trustees who may be very effective in the role.</p> <p>The Scheme Actuary is there to advise the trustees. He or she should be able to explain the issues to the Trustees so they are in a position to make the decision. It is not unreasonable for the trustees to make decisions in accordance with the advice that they have been given. (To turn this around, we consider that it would be a cause for concern if trustees were repeatedly ignoring advice from the Scheme Actuary).</p>
2.11	<p>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?</p>	<p>In-house peer review is standard practice across much of the profession. We believe that prime responsibility for the implementation of appropriate review and risk management procedures, designed to improve quality of actuarial advice, should rest with the firm delivering the engagement and contracting with the client who will rely on that advice.</p> <p>We welcome any proportionate initiative to improve the quality of actuarial advice. In this regard, we note that the cost of any compulsory external third party audit or review may be disproportionate to the benefit</p>

		<p>for, in particular, smaller pension plans, and would need to be structured in a way that does not blur distinctions in relation to reliance on advice.</p> <p>We also note that trustees are free to ask for a second opinion (and this does happen in practice – we have provided such opinions). Although not a direct check, the company is also free to seek actuarial advice independently of the trustees.</p>
2.12	<p>To whom should the Scheme Actuary be accountable?</p> <p>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?</p> <p>Is there a need for a separation of these roles?</p>	<p>The trustees.</p> <p>The same actuary (or firm of actuaries) should not advise both trustees and employers when there is a direct conflict e.g. in negotiating contribution rates or redesigning the scheme.</p> <p>Yes, as set out above.</p>
2.13	<p>To what extent has actuarial advice contributed to the way occupational pension schemes are funded in the UK?</p> <p>How will the Pensions Bill's proposals affect the role and power of actuaries advising pension schemes sponsors and trustees?</p>	<p>Overwhelmingly. Actuarial advice is crucial – funding advice is the actuarial core skill in this area. Legislative prescription has caused problems in the past e.g. MFR. The Pension Bill will change the legal constraints again in a manner yet to be clarified. However, assuming that the legislation leaves room for discretion in agreeing funding approaches, the actuary's role is likely to remain a pivotal one.</p>
2.14	<p>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?</p>	<p>No.</p>

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

2.15	What are the implications for actuaries of the FSA's moves to a realistic reporting regime in general insurance?	The new regime will require a higher level of technical analysis of likely claims outgo by general insurers, and in practice much of this work is likely to be done by actuaries. We believe that the financial management of general insurers will be improved as a result.
2.16	Do you agree that a reserved role for actuaries in general insurance is unnecessary?	There are areas of general insurance where a formal reserving role exists, and this has been of value to a variety of stakeholders. We believe that there would be some advantages to a reserved role being defined, and that the actuarial profession would be the best body to train and support the holders of such a role, but would not go as far as to say that this would be essential.
2.17	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?	General insurance lacks the same variety of management levers to control its future development as in other industries that actuaries serve. Claims reserves can sometimes deteriorate dramatically over a short period of time.

## Investment

2.18	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?	The institutional investment market is diverse and has a wide range of professions represented in it, including actuaries. There are no specific issues faced by actuaries, as compared to non-actuaries, which we would like to draw your attention to.
2.19	Do you have any observations about the Institute's role in regulating investment business by actuarial firms as a designated professional body under FSMA?	Deloitte Total Reward and Benefits Limited is authorised and regulated by the FSA. We believe it would be appropriate to ensure there is a consistent form and delivery of regulation to be applied to all participants in the market.

## Maintenance of professional competence

2.20	Is there the right balance between the Profession issuing practising certificates and regulators giving their approval?	<p>We consider that it is appropriate for the profession to issue practicing certificates.</p> <p>Regulators should (and do) have input in making clear their expectations of practising actuaries, and in approving the contents of relevant actuarial Guidance Notes. We are aware of at least one instance when the FSA did not automatically assume that holding the certificate meant that the applicant was suitable for the Appointed Actuary role applied for, and we welcome this active involvement of the regulator.</p>
2.21	In your view are the current CPD requirements and the provision of CPD appropriate?	<p>We welcome the profession's proposals to extend CPD requirements to practising actuaries more generally (rather than the current situation where the rules apply principally to those actuaries in reserved roles).</p> <p>We believe that a more comprehensive CPD program should enhance quality and user confidence in the profession.</p> <p>A wide range of CPD opportunities is currently available, and we consider the provision of such opportunities to be adequate.</p>
2.22	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, see above.
2.23	Are there any other changes to the CPD programme that you would like to see?	No

## Whistle blowing

Brief comments on the areas covered by questions 2.24 to 2.26 are provided in the letter accompanying this response.

## Standard-setting

2.27	<p>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?</p> <p>Do you agree with Lord Penrose's view that professional guidance in the past has not protected policyholders' interests?</p>	<p>The existing standards are non-exhaustive and there are a number of areas where greater direction would be welcome. The Profession has already formulated a plan to improve this aspect of its performance. Directionally it is of course important to have both a proportionate response and an appropriate balance between prescription and discretion. As an example, we do not believe that the application of the Minimum Funding Requirement (a purely prescriptive approach to funding pension plans) resulted in an improvement in the overall quality of funding strategies for UK pension plans.</p>
2.28	<p>Does the technical guidance need to be updated more regularly and are fast track processes required to provide guidance on urgent issues?</p>	<p>We welcome the Profession's proposed new framework for standard setting and expect that this resolve much of the criticism that has been levelled at it in this regard. Nonetheless, it remains the responsibility of each individual actuary, and their employer if relevant, to respond appropriately to changing circumstances.</p>
2.29	<p>Who should provide the guidance: the Profession, the regulators or the government?</p>	<p>We believe that the Profession is best placed to develop and support standards. Regulators will have considerable input into these standards. The legislative framework should be established by government.</p>
2.30	<p>Is there a need to reduce the level of discretion permitted within the guidance to come to some generally acceptable professional practices?</p>	<p>Certainly there is scope to produce more directive guidance in a number of areas. However, see our comments under 2.27 above. The exercise of discretion will inevitably remain a feature of actuarial work, but we believe that this will need to be accompanied by a peer-review process and full disclosure of the way in which the discretion has been exercised.</p>

2.31	<p>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?</p> <p>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?</p>	<p>We enthusiastically endorse the Profession's own proposals, and do not think that any further measures need be introduced at this stage.</p>
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### Openness, peer review and audit of actuarial work

Brief comments on the areas covered by questions 2.33 to 2.37 are provided in the letter accompanying this response.

### Monitoring, complaints and disciplinary schemes

2.38	Do the new disciplinary processes implemented by the Profession from 1 January 2004 address the issues that Lord Penrose raised?	–
2.39	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?	–
2.40	Should the review consider whether a fully independent disciplinary process is needed?	–
2.41	<p>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?</p> <p>If so, who should have responsibility for overseeing the monitoring and disciplinary proceedings and who should bear the associated costs?</p>	–
2.42	Should discipline be undertaken by the Profession or by regulators?	–

2.43	Do regulators make appropriate use of actuarial expertise to supervise the work of actuaries?	–
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### **Chapter 3: Roles and Responsibilities of the Government Actuary's Department**

We do not have any comments to make under this chapter heading.