

Sir Morris

Thank you for your letter of 30 June addressed to Mike Geoghegan. I am responding on his behalf having responsibility for insurance and pensions.

We are not advocates of 'with profits' products which we believe are overly complex and opaque and have contributed to a number of the issues the industry has faced (including those involving Equitable Life) and much of the additional regulatory burden imposed. This response focuses on 'non profit' life business.

Role of the actuary

We support the FSA's proposals for transferring the Appointed Actuary's (AA) responsibilities to the Board which will meet the criticisms raised by Penrose on the over reliance on the AA. Whilst this clearly creates a risk that the Board may not have sufficient expertise to take on these responsibilities effectively, it should be for the Chairman of the Board to manage this risk; eg through ensuring sufficient actuarial representation on the Board and appropriate training for non-actuarial Directors. We do not favour further legislation or regulation in this area.

There is material inconsistency in the supervisory framework for General Insurance companies compared to Life companies. This will persist post implementation of the FSA's proposals; eg the requirement for a controlled actuarial function providing actuarial advice to the Board in Life but not GI. Whilst the nature of the risks underwritten differ between these two types of companies, this does not obviate the Board from requiring advice on solvency management (and other actuarial matters). We therefore believe the responsibilities of Directors in these types of firms should be aligned and the need for a controlled actuarial function removed.

Reviewing actuary

We support the introduction of the role of the Reviewing Actuary and this will deal with Penrose's concern regarding the lack of external scrutiny on actuarial liabilities. This should be undertaken consistently for Life and GI companies. It will also help increase public confidence.

Accountability

We believe that actuaries should be primarily accountable to their employers.

The industry issues highlighted with Endowment Mortgages and Pensions in s1.17 were primarily due to poor sales practices rather than products not

being "fit for purpose". Nevertheless, we feel it is appropriate that safeguards are put in place to prevent the design of products which are not fit for purpose. Actuaries are just one of a range of disciplines involved in the product design process, and so this responsibility should lie with the Board.

It is important that the industry is able to demonstrate market confidence that customers are being treated fairly. Therefore, there would be merit in fuller disclosure in this area coupled with some form of external review to demonstrate that the Directors had exercised their responsibilities in this area.

Education

Actuaries have a broad education programme. This gives them the ability to understand the financial dynamics of insurance firms. However, where the actuary has elected to take the specialist fellowship exam in insurance, other areas such as accounts, investment management are only covered at a fairly superficial level. Whilst this is needed to give the broad overview, there is the danger that actuaries may act as if they were fully qualified in these areas, and this is one of the concerns raised by Penrose. Professional Guidance Notes already in issue should prevent this type of activity arising and these should be reinforced by the profession.

Whistle-blowing

With the responsibilities of the AA being transferred to the Board, it would be appropriate to extend the current whistle-blowing requirements which relate to the AA to the firm's Directors. This would further protect the public interest.

If you wish to discuss any aspect of this response, please let me know.

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