



**Lloyds TSB Group**  
**Response to**  
**Morris Review of the Actuarial**  
**Consultation Document**

Two Lloyds TSB Group were asked to respond to the consultation Document on the Review into the Actuarial Profession. This response is on behalf of the Lloyds TSB Group. Lloyds TSB Group owns the Scottish Widows (SW) group of life, pensions and investment companies and Lloyds TSB Insurance group of general insurance businesses. This response reflects mainly the Group's dealings with the actuarial profession through these businesses, particularly Scottish Widows.

In addition to our detailed responses, we have the following general comments:

- (i) The concept of an Appointed Actuary with reserved powers dilutes the principle of accountability. The Board is responsible for all aspects of the conduct of the business. It should draw on actuarial skills as necessary. Actuarial work is no different in this regard from other professional activities such as legal and accountancy, where the Board takes advice but retains responsibility. As a check and balance, and in order to certify that the accounts are true and fair and that adequate solvency exists to allow "going concern" treatment, the external auditors should check the work of the actuaries in the same way as for other aspects of the accounts, and will need to employ the technical expertise to enable them to perform this function. Boards will always view themselves as less accountable if an Appointed Actuary has reserved powers which they cannot override. Of course actuarial matters are complex but there are lots of other more sensitive technical areas where Boards have to take advice but retain responsibility. For example, consider an aircraft manufacturer, where a serious design defect will cost lives rather than merely money. There is no reserved role for a chief designer, for example. The Board takes responsibility and the technical work is checked independently by the airworthiness authority.
- (ii) We do not accord with the embedded assumption in the Consultation document that a purpose of self-regulation by the profession is to protect the public interest. This leads directly to the consumerist agenda and creates an unnecessary conflict of interest. Professional regulation is to maintain standards of technical competence, judgement, integrity and of the communications interface between the expert and the lay user of the service. It is for the Board to be accountable for judging the balance between the interests of stakeholders.
- (iii) The Profession does bring a high level of financial rigour to the long term finances of life companies. Communication, presentation and commercial awareness skills training would usefully enhance their roles. Arguably too much focus has been placed on high grade mathematical ability leading at times to spurious accuracy. The training can lead to a more risk averse approach and a tendency to avoid the 1 – 5 year view.



## CHAPTER 1

### The role of actuaries, the Profession and the actuarial services market

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#### Overview

This section covers criticism by Lord Penrose in his report of the Equitable Life (EL) Inquiry relating to the exclusion of the supervisory returns from the audit and assumption of legal and accountancy work by actuaries not qualified in these fields.

1. On the audit, it is important to place the criticism in context. Lord Penrose was dealing primarily with a period at EL (pre 1995) prior to the introduction of legislation and guidance relating to the supervisory returns:

(i) The Companies Act 1985 Schedule 9A includes the calculations of the technical provisions for long term business in the financial statements of the company. These calculations unlike those in the supervisory returns are subject to audit. Paragraph 46(3) states that the calculations are to be made by a Fellow of the Institute or Faculty of Actuaries. They could be carried out by the appointed actuary or by another actuary. The role is referred to as 'reporting actuary' and outlined in more detail in GN7. Also unlike the supervisory returns, the directors can outline an approach they wish the reporting actuary to adopt. The reporting actuary can arrive at different conclusions from the appointed actuary but must defer to him on questions of PRE.

(ii) The directors sign off compliance with the Prudential Guidance Notes (prepared by DTI/HMT 1994) dealing with systems of control and the preparation of returns and their opinion is subject to audit.

2. Secondly, in the Corley Report (September 2001) which was commissioned by the actuarial profession into EL, a number of features of EL were noted as placing it in a very different position from the vast majority of its competitors. These were: (i) that EL had no free reserves; (ii) a lack of diversity of product range ie their products consisted mostly of GAR pensions; (iii) they did not sell through IFAs who can act as an industry sounding board and (iv) the Appointed Actuary was also the CEO.

In conclusion the criticism levelled at EL may to some extent have been overtaken by events and is unlikely to apply to all life companies. Having said that, it is obviously important to ensure that the weaknesses in the system which allowed the EL to get into extreme difficulties, are remedied.



## 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?**

- (i) Actuaries can bring a high level of financial rigour to the operation of life companies especially as they are concerned with the long term finances. They also play an important role in product design and pricing. Conversely, their ability to communicate effectively to their colleagues and Board especially when considering the macro view and the materiality of the impact is sometimes lacking.
- (ii) Yes subject to addressing their communication, presentation and commercial awareness skills.

**Q1.2 Are there areas of business that you think actuaries should become even more involved in or conversely are there areas of work you think actuaries should leave to other professionals?**

Actuaries can usefully be involved in many areas of business provided they have the right skills and qualifications. Actuaries have been criticised by Lord Penrose for taking on work which has traditionally been associated with other professions. One of the problems in EL unlike Scottish Widows was that actuaries were running a number of departments and only communicating amongst themselves. Lord Penrose in his report drew attention to actuaries drafting legal documents.

Traditionally in many life offices the only role to senior position was being an actuary. A more balanced approach in skills base is emerging.

**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?**

The reserved roles (appointed actuary, pension scheme actuary and reporting actuary) primarily all involve the valuation of long term liabilities. Any other profession taking up these roles would in effect be actuaries under a different name. The concept of an Appointed Actuary with reserved powers dilutes the principle of accountability. The Board is responsible for all aspects of the conduct of the business. It should draw on actuarial skills as necessary. Actuarial work is no different in this regard from other professional activities such as legal and accountancy, where the Board takes advice but retains responsibility. As a check and balance, and in order to certify that the accounts are true and fair and that adequate solvency exists to allow "going concern" treatment, the external auditors should check the work of the actuaries in the same way as for other aspects of the accounts, and will need to employ the technical expertise to enable them to perform this function.



Boards will always view themselves as less accountable if an Appointed Actuary has reserved powers which they cannot override. Of course their subject is complex, but there are lots of other more sensitive technical areas where Boards have to take advice but retain responsibility.

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

The 'reserved' role has tended to foster insularity. For appointed actuaries, there has not been enough pressure to communicate 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?**

No, for valuation work as this logically would result in endless checking e.g. who would review the reviewers, scrutinise the scrutinisers. The audit requirement addresses the need for peer review.

There are other critical reports by actuaries which will not be subject to audit, such as the bonus recommendations of the With Profits Actuary, the Financial Conditions report and/or Individual Capital Assessment which could be subjected to the same principles by extending the scope of the audit.

- (i) The process by which the valuation of assets and liabilities is arrived at and presented to the Board should be robust. We believe that it would not be uncommon for the figures to be calculated by a large actuarial department with adequate controls before being passed to the appointed actuary for further technical questions.

It is likely, as in SW, that an element of internal peer review relating to pension scheme actuaries exists but this is justified as the advice to schemes emanating from one life office should be consistent.

- (ii) The directors are ultimately responsible for the supervisory returns including the valuation and the adequacy of their internal controls. It is up to them to challenge them. It is always open to directors to obtain expert advice to assist with any points they are not clear about. This right is usually enshrined in the Articles of the Company.
- (iii) In the EL Inquiry GAD made the point that their role is limited to ensuring the valuation is carried out in accordance with the regulations and not to substitute their judgement for that of the appointed actuary. Lord Penrose's response was



*‘...it appears that they (GAD) were often inhibited by their understanding of what was acceptable within broad and ill-defined standards of practice...it appears from my reading of the files that there was a tendency to judge according to the lowest common denominator of prevailing current views among actuaries, and appointed actuaries in particular, on whose individual judgements heavy reliance was placed. As a result GAD did not appear to have challenged sufficiently the opinion and assumptions underlying actuarial valuation. Although GAD brought a more detailed style of scrutiny in the early 1990’s, the standards of scrutiny still impress me as complacent, lacking challenge, hesitant in criticisms and in following up any criticism made. This was indirectly reflected in a lack of robustness in the regulatory process.’*  
(Chapter 19§160)

and

*“ There was challenge but it was ineffective. Unsatisfactory answers were accepted without follow up. Lines of enquiry were postponed in the face of resistance.”* (Chapter 19 § 228)

This inadequate level of scrutiny could recur with the proposed reviewing actuary role. The problem is not purely in a lack of reviewers or scrutinisers but the calibre of those involved: in the EL case despite the six points identified by Penrose as ripe for challenge by GAD and despite the fact that Ranson occupied all three roles of CEO, appointed actuary and reporting actuary and had sole access to the regulators and GAD, the attitude of the regulators was supine.

- (iv) Lastly, in the Corley Report it is pointed out that with the lack of challenge by GAD and legal backing for the position adopted by the Appointed Actuary, internal challenge would have been unrealistic. However it is conceded that external peer review may have questioned the adopted position more and put forward alternatives.

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

Yes, but it will only improve actuarial effectiveness if the other professions have an increased understanding of the scope of the actuarial roles they are dealing with and if the actuaries can explain matters clearly. Both the accountancy and legal profession rely on actuarial input and vice versa. The profession could work more closely with branches of the medical profession to develop greater insight into the dynamics of mortality and morbidity.



## Accountability of actuaries

### Overview

This section homes in on criticism by the Chief Financial Services Ombudsman, Walter Merricks in 2001. It is important to read his comments in context.

1. The 'public interest role' of the actuarial profession traditionally covers areas like research by the actuarial profession into issues on ageing population, global warming and carbon emissions, consumer understanding of risk, care or cash provision in long term care. This research would be shared with government bodies, consumer organisations, the press and the public at large as well as industry. To that extent actuaries are acting in the public interest.

The Profession also ensures the public interest is served by providing skilled, trustworthy workers to meet the needs of the business. The public interest role does not include championing consumer rights.

It is this second more general public interest role that Merricks is attacking in his lecture with particular reference to the product design of endowment policies and personal pension.

2. His point about endowment policies not being 'fit for purpose' is based on his view that many of the complaints referred to the FOS relate not merely to mis-selling (of perfectly well designed products) but to products which on no reasonable projections could ever repay the relevant mortgage.

- (i) Endowment policies are generic and the scope for design is limited. However, if Merricks' claim is correct it would be classified as professional negligence or incompetence or even fraud rather than a conflict of interest between employer and the public. The duty to employer and any duty to the public would both probably be breached in this scenario.
- (ii) It may be that Merricks is picking up on criticism by Lord Penrose on the absence of scrutiny within EL of new products and a failure to manage the accompanying liability risks. This criticism is directed at the changing nature of the guarantees in EL's pension products and failure to adequately provide for them. (Chapter 19 §111). Merricks' criticism as it stands seems misplaced especially given that, in the case of personal pensions, product design followed government legislation and had to be approved by the Inland Revenue. The scope for independent product design was limited if the goal was an approved product with all the tax advantages intact. Again the problems arose from mis-selling the product..



**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?**

- (i) The issues are not really on product design at all but relate to the selling process where vulnerable people were targeted with unsuitable products such as pension products for miners and teachers. Many customers received good returns from investments in endowments and personal pensions.
- (ii) More questions could certainly have been raised by the profession, but also others in the companies involved, on the sales process and the appropriateness of the products for certain customers. The regulatory authorities could have issued better guidance and controls over sales. The government at the time could have been more guarded in their heavy promotion of personal pensions, which were subsequently affected by improving mortality rates and lower interest rates
- (iii) Better dialogue between issuers of guidance notes and practitioners and more market research for promotional material would be beneficial. Actuaries could work more closely with economists in identifying market trends sooner rather than later and advise on adjustments to policy conditions and or investments if their policies allow for this and manage the expectations of policyholders more astutely.

**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?**

Yes:

- (i) Actuaries employed by a life office are responsible to their employers; a scheme actuary to the trustees and a consulting actuary to his clients. Their ‘public interest role’ is limited to that described in the preliminary remarks to this section.
- (ii) The FSA has been set up with regulatory objectives which include the protection of consumers and market confidence in the UK financial system which encompasses the strength and stability of the insurance and pension sectors. The actuarial profession must work within the legislative framework and be accountable to anyone to whom they owe a legal duty.



To the extent that actuaries exemplify rigorous professional and ethical standards then to that extent the interests of the public are served.



**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?**

The current situation is:

- (i) For partnerships (e.g. consulting actuaries), each partner is personally liable for the mistakes of his other partners. This in itself is thought to safeguard standards. It is only recently that professional firms can be organised as limited liability partnerships.
- (ii) Employers of members of professions are liable for their incompetence or negligence to customers or third parties. The ultimate sanction of the employer is to dismiss the employee.
- (iii) The trustees of a pension scheme can sue the actuary for bad advice and pass any recovered damages on to the members.
- (iv) The ultimate sanction of the Profession against lack of rigour or lax ethical standards is disciplinary procedure and withdrawal of the practising certificate or refusing membership.

There is no rationale for holding actuaries to be in a different position from any other professional regarding accountability.

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

Actuaries are in the same position as any other profession as far as liability for poor advice is concerned. What may obscure this is that they do not have as much direct exposure to the general public as say a GP or a lawyer in private practice. Their clients are mainly corporations or trustees of occupational pension schemes. If a member of the public has suffered loss as a result of poor actuarial advice they would have an action against the partnership providing advice directly to them or the company or the trustees for whom the actuary acts. They may also have a legal case against the actuary if a lack of duty of care can be shown to exist by the actuary.

**The Profession**

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

- (i) Government – the Profession needs to be more confident in putting forward its views more forcefully to government departments. It does not make full use of the skill base - e.g. the government in trying to encourage people to save have introduced a number of ineffective measures including, on long term savings, price capping following the Sandler product regime. It was recognised in the Profession that this



was not going to encourage people to save – people do not have enough money to save. Representations made by the Institute were not heeded. The Profession should try harder to establish stronger links with policy makers and political lobbying before consultation papers are issued.



- (ii) Business – the Profession is very actively engaged on the pension side.
- (iii) Regulators – the Profession has strong links with bodies such as the ABI etc. More could be done re consumer bodies. The Profession has put lots of effort into dialogue with FSA.

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

Yes. The Profession has expanded actuarial knowledge through the production and dissemination of research papers etc. Much of this work is done in actuaries' spare time and at times at the expense of the company. Actuaries could work with other professions to enhance its research. The technical mathematics can be overly expressed, sometimes resulting in spurious certainty over a mass of numerical data.

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

Promotion of actuarial services has been more effective in recent years. Financially aware consumers should understand the actuarial role. It would help if actuaries participated more in the media and commented more on current financial services issues. Too much bad press is left unanswered – actuaries are getting blamed for falling WP returns, the problems at EL, 0% bonuses etc. whereas not all of these can be attributed to actuaries. Actuaries need to take a higher profile and be more confident and hold their ground more rather than advise on the basis of sales force demands. More could be done to promote actuarial expertise Actuaries do have a tendency to overcomplicate product design and this has not helped in promoting their work.

**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?**

- (i) No.
- (ii) Yes – depends partly on volunteers but generally has been able to maintain a thoroughly diverse group of people.
- (iii) Yes.

**Entry into the profession**

**Q 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?**



The industry and employers have little direct influence over the curriculum. It is controlled by representatives on various committees within the Faculty and Institute. These representatives work in industry and so should be aware of employer needs. However, there is undue emphasis on mathematics and too much technical focus from the consultancy side of the profession whereas life office needs are different. More emphasis should be placed on management and communication training tailored to work within a life office.



There should be more life office actuaries and lay people on committees covering education.

**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?**

The current actuarial qualification is reasonable for technical actuarial roles but has been poor on communication and inadequate for broader business management roles:

- (i) communication is part of study and has now increased from a 1.5 hour exam to a 2.5 hour exam; there is nothing on management training;
- (ii) joining a life office while taking professional exams would include management training but of a very general nature;
- (iii) practical application within a life office helps to hone technical skills but fails in looking at the business as a whole;
- (iv) working with more closely with other experienced members of other professions e.g. Finance Director can help to raise awareness of wider issues.

**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?**

Yes, this amount of time is needed in a business environment to develop maturity of thought. A good breadth of subjects are covered but more could be done on the practical side of specialisation and an awareness that an actuarial role is not simply about doing difficult sums.

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

Actuarial education has caught up with financial economics (which involves technical maths and modelling) which appeals to the technical actuaries.

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

The new qualification syllabus is going in the right direction: there is a new practical paper on actuarial modelling and more emphasis has been given to communication.

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

There is a reasonable mix but there are probably not enough links with other professions' qualifications. A similar caution could apply to accountants



working in the insurance sector.



**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?**

An actuarial degree gives exemptions from some parts of the professional qualifications but working within a Life Office while doing exams gives a better range of experience. The profession sets the syllabus and commercial provider provides training. This is of a high standard. The actuarial profession is small compared to other professions and possibly could not support numerous different providers.

**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?**

The main drivers are:

- (i) for actuaries working within life offices business has become more diverse as corporate structures are more complex and demutualisation schemes and the pace and amount of change in financial regulation ensure much more work for life office actuaries. As a result life offices have been instructing external firms more in recent years – particularly, financial modelling work, technical work regarding the transfer of business and demutualisations and the design of more innovative products.
- (ii) there has also been growth in financial reporting due to more robust reporting. Risk management is also a growth area.
- (iii) the market for consumers instructing consulting actuaries direct is very small and mainly centres on valuation of pension rights on divorce. However this has still become more prevalent as the law has developed quite considerably in this area in recent years resulting in solicitors handling divorces placing much more emphasis on instructing actuaries for such valuations.
- (iv) a number of accountancy firms have expanded rapidly into actuarial consultancy, buying two of the main providers.

**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?**

Use can be made of such services in effect in any area where there is a new technique or new research and no time for in-house expertise to pursue thoroughly. SW use external actuaries for new modelling techniques on for example how to manage guarantees and calculate embedded value.



It is noticeable that there are few actuaries available for contract work, a significant difference compared to accountants.



**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?**

It is easier to switch actuarial providers than for example auditors. There are limitations resulting from data restrictions (e.g. limited access to Prophet code – this is actuarial software developed by Bacon and Woodrow which other consulting actuaries cannot use) which limits the ability to switch.

Switching would be encouraged by a fuller range of services being available and greater competition. Greater switching has been evidenced by clients of accounting firms in the past decade as competition has increased and so has the range of services provided (including greater numbers of firms offering actuarial consulting services). The key difference behind this would seem to be that a high proportion of accountants train in public practice, and are therefore brought up in the business of selling services, whereas most actuaries are employed in industry and are not.

**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?**

The subject matter is complex, but typically results have been presented internally by actuaries for actuaries and therefore not generally understood outwith. This is in stark contrast to the accountancy and legal profession where typically results of work are presented to general business people. Communication and presentation could improve. There are now proportionately less actuaries on Company Boards, for example, and actuaries need to adapt their presentations to the audience. In SW Board's case, although matters are complex, important decisions are made and properly debated including fairness of policy proceeds between different generations of policy holders. This is done by understanding the principles in which decisions are being made.

The practice with Scheme Actuaries is to give trustees an explanation of the process and the choices available. They do not need to know the nitty gritty detail and generally understand the issues through good dialogue with Scheme Actuaries.

**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?**

Over the last ten years, there have not been many consultancy firms. The intrinsic high standards limit the pool. There has been great kudos attached to the highly technical people with less emphasis on their overall business acumen.



Going forward, the FSA and the new regulatory regime for Prudential Source Book and 'Treating Customers Fairly' will have major influences.



**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?**

- (i) In- house unless exceptional workload or specialist knowledge/external perspective required (because of cost, overhead of understanding of the business).
- (ii) External perspective is required from time to time to validate critical internal work.
- (iii) Yes – recruitment difficulties experienced (may be influenced by geographic location to an extent) – especially certain specialisms that are in demand as a result of regulatory change.

**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?**

- (i) There is low competition overall. Life Offices looking to employ additional actuaries usually poach from other Life Offices. On contracting with firms of actuaries again as it is a small field a large Life Office would only use one of the large firms like Ernst and Young, Watson Wyatt or Tillinghast. Because of the regulatory environment and what is at stake there is a need for proven expertise – someone who has been working at the forefront of the Profession.
- (ii) Professional rules requiring consultation of previous incumbent (where applicable) can constrain but not to an inappropriate extent.

**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?**

GAD does not present itself as a mainstream competitor for actuarial life consultancy service.

### **International comparisons**

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

Several parts of the Commonwealth and Europe have sought advice from the UK profession which we believe is held in high regard. Several working groups have visited companies such as SW in the past to learn from UK practices.



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

For pensions work, where there are similarities between US & UK the Profession is held in high regard with actuaries making a good impact.

**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?**

No comment beyond expecting the review to take into account relevant international experience.

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

No comment.

**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?**

Yes – like accountants, actuaries need to be *seen* to be regulated. They have been slow to embrace this. In terms of lobbying, the accountancy profession is seen as having a more effective voice.

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

International Accountancy Standards for insurers will have a significant impact on actuaries.

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

The regulatory framework of the legal profession is more highly developed than of the actuarial profession. To a large extent this is because the legal profession is much older and is a much larger profession but there are some features of the legal profession's regulatory framework that would be worth considering for the actuarial profession, namely

- (i) nearly all solicitors carrying out a legal role within their own jurisdiction



require to have a practising certificate and comply with continued professional development requirements whereas only those actuaries holding reserved roles need to have practising certificates;

- (ii) the disciplinary process run by both the Law Society in England and Wales and the Law Society of Scotland is worthy of examination but needs to bear in mind that the Profession's discipline system has recently been overhauled and it also has no jurisdiction over firms only its members;
- (iii) in addition, the Legal Services Ombudsman reviews the conduct of each of the law societies' complaints and disciplinary tribunals. This external scrutiny of the workings of the profession must be preferable to a totally insulated process. The legal profession in Scotland and England have lay members on the disciplinary tribunals;
- (iv) both law societies carry out regular auditing of firms of solicitors – the main focus of such auditing is compliance with client money regulations and this may not be relevant for firms of consulting actuaries – however, the fact that the law societies have the powers to audit firms strengthens the framework in which solicitors' firms must operate and should instil an element of professionalism in the running of the business.

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

The actuarial guidance notes, although many of them are mandatory, operate at the level of principles rather than detailed requirements. They are not as comprehensive or as detailed as accountancy standards. Perhaps the way forward is to have some more definitive standards with guidance notes as assistance. The overriding principle in audit reports is whether they are 'true and fair' and a similar requirement could be imposed on the actuarial valuation.

The medical profession may be worthy of consideration re monitoring and updating its code of ethics.



## CHAPTER 2

### The Current Regulatory Framework of the Actuarial Profession

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#### The Regulatory Role of the Profession

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

The regulatory framework should ensure standards are kept high in terms of professional competence and integrity.

##### **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?**

- (i) The strengths are the maintenance of a high degree of academic and financial rigour and the weaknesses possibly relate to being slow to modernise and allowing the Profession to be perceived (rightly or wrongly) as a cabal protecting arcane knowledge.
- (ii) Actuaries within the life and pensions sector work in a heavily regulated environment (ie by FSA and OPRA) in addition to professional regulation. As consumers of services provided by actuaries are primarily corporations or trustees then the current regulatory framework does protect their interests. This is similar to the protection provided by accountants in the auditor's role.
- (iii) There are pros and cons to reserved roles. Reserved roles can be beneficial in that someone has been identified as being responsible for certain defined activities or services. On the other hand it may place too much power in the hands of one individual. In practice if the Board of a company or a group of trustees is strong then this would not present a problem. Extending the scope of the audit to review actuarial assumptions required for a valuation of liabilities is a key improvement. See also response to Q1.3.

##### **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?**

Technically there could be a conflict if the Profession promoted a body of people who did not meet any stated standards but this would involve a high level of cynicism. Broadly, having set admission qualifications together with continuing education and disciplinary procedures there would be enough confidence in the system for the Profession to both represent its members to



the outside world and regulate them.



There will always be members of the Profession who fall short of stated standards no matter what regulatory regime is in place. But it is in the interests of the Profession that their membership is withdrawn.

**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?**

Much of the regulation affecting the Profession is codification of best practice but there are too many rules. There are some difficulties in the detailed rules in some cases (one size doesn't fit all) but that's inevitable (examples are mainly in the detailed rules for calculating realistic balance sheets etc. - and in principle can be dealt with by rules waivers). The sheer volume of them reduces the likelihood of them being fully appreciated. However the FSA rules requiring firms to take actuarial advice are neither disproportionate nor too detailed, particularly for a large life office.

The fact that lots of the FSA rules are guidance rather than rules also allows firms to apply them proportionately. In specific relation to actuaries, there's no particular conflicts between FSA/professional regimes that come to mind but the detailed rules can hinder effective communication between actuaries and their clients.

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

**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?**

- (i) The new regime has reduced the risk of a rogue Appointed Actuary remaining unchallenged by the Board as in the EL case. However by abandoning actuarial sign-off of the valuation the new regime has removed a valuable check on rogue Boards – the new Actuarial Function does not have to sign-off that reserves are adequate and the Board could choose to adopt a racy set of assumptions resulting in exaggerated growth to keep shareholders happy. The FSA have pointed out that the Auditors with the reviewing actuary can report on the adequacy of reserves but auditors perceive this as too onerous and would increase their PI cover to unacceptable levels. It is also open to the actuarial function to whistleblow but this is an extreme measure and not one lightly undertaken. At the moment the Appointed Actuary can refuse to sign the certificate which arguably helps prevent any potential abuse of power by the Board.
- (ii) The introduction of the with-profits Actuary will cause a number of legal problems re scheme documentation and articles but overall the new regime is an improvement. It will need to be monitored closely.



- (iii) The introduction of a reviewing actuary will strengthen the audit.



## 2. Lord Penrose also drew attention to

(i) The weakness of the Board in that they possessed general financial services

knowledge ie general finance, banking and investment knowledge rather than knowledge of life assurance and recommended regulators review their approval of nominees for appointment to life offices' boards.(Ch 19 §94) We note that the FSA currently has to approve the Chairman and CEO of regulated companies. We strongly endorse that power of veto.

(i) The fragmentary nature of financial reports to the Board so that the Board never obtained a complete overview of the financial position of the Society. The Board was never fully advised of the financial implications of the decisions open to them.' (Ch 19 §108)

(iii) no committees monitoring product risk and

(iv) the reluctance of the regulator to challenge the CEO/AA effectively.

These issues also need to be addressed. In particular we strongly believe that the roles of CEO and Appointed Actuary should be separate. The SW Board is satisfied that it was well informed and satisfied after healthy and very open debates on actuarial matters.

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

There has been a rapid development in actuarial techniques over the last few years including application of financial economics and realistic balance sheets. Actuaries need to keep themselves up-to-date but continuous professional development (CPD) won't necessarily ensure that all do. The Profession is looking at the whole issue of practising certificates.

### **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?**

Board membership need not include expert knowledge, as there may be a natural tendency to attach undue weight to the views of the expert, whereas the Board acts as a gateway between the internal experts and the external lay audiences. Corporate Governance has moved towards Boards being dominated by independent generalists who call for expert advice when they need it rather than for detailed subject expertise. As an example, the valuation report to the Board has to emphasise key assumptions and that decisions have to be made. There are time constraints at Board meetings, so even if there were a number of experts on the Board, there would not necessarily be enough time to deal with detailed or far ranging points. To address this within SW, valuation papers are put to the Board after internal



procedures are complete and discussion takes place at weekly executive meetings.

As an example, the introduction at SW this year of the WP committee (comprised of non-executives) following FSA Guidance, has improved the situation as this committee has more time to scrutinise papers.

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

No. There is much complexity behind the figures and, particularly as actuaries gain experience with the new techniques, comparability of results could be quite weak. Unfortunately the word "realistic" conjures up visions of precision and comparability that really don't exist. However, as a result of needing to show realistic balance sheets companies will have to put more effort into explaining their financial positions.

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

#### **Overview**

1. The Pensions Bill proposes a new funding regime for occupational pension schemes that has essentially three strands; giving more freedom regarding funding decisions, greater disclosure to members (and to the regulator) and greater security for members with the requirement to fully fund pensions on wind-up and the pension protection fund. If the Government had decided to offer a regime with a prescribed contribution level and lower risk investments then benefits would be more secure and there would be less need to rely on a protection fund but there would be less flexibility.

2 Pensions Actuaries have no power to insist on how pensions liabilities are funded or how assets are invested. This is up to the Trustees having considered the strength of covenant of the employer and having taken advice from the actuary as well as from investment managers and possibly legal advisors.

The main factors which have had an impact on current funding of pension funds are:

- (i) Increased longevity and lower interest rates.
- (ii) The changed rules on ACT which takes about £5 billion pa from funds so that the total extra tax to date is a substantial proportion of the total deficit of pension schemes.
- (iii) The surplus regulations which prevented schemes from becoming overfunded and required employers to reduce or stop contributions or even to take refunds of surpluses;



- (iv) The exposure to equities during a period of significant under-performance.

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

Yes the role should be reserved for actuaries. Actuaries are trained in pension scheme risk management and have the appropriate knowledge to carry out the role. We are not aware of other professionals with this level of knowledge or training.



**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 level of expertise varies enormously amongst trustees. Some trustees are very experienced and highly trained whereas others may rely more on the advice of their advisors. There is certainly a risk that trustees accept the advice of their actuary without question and indeed their other advisors including investment and legal advisors. The key point is that the advisor should be able to explain the issues well enough for the trustee to understand and for the trustees to be clear that it is their duty to make decisions. In the past, it might have happened that actuaries were effectively making decisions for trustees but that is much less likely in recent years. Apart from anything, actuaries are unlikely to want to take the risks of making the trustees' decisions that are properly theirs to take.

**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 potential be exerted by the Scheme Actuary?**

The actuarial profession is introducing peer review for scheme actuaries. In the meantime, many firms like SW already have a system of peer review to protect their own commercial interests and also compare practice with peers in other institutions.

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

1. A final salary arrangement is a cooperation between trustees, employers and employees. The Scheme Actuary is clearly accountable to the trustees (and in cases of misconduct, to the profession). Given that the trustees make the decisions, this seems to be the appropriate accountability. The removal of the MFR (and associated legislation) will increase the power of the trustees to become more involved in the setting of contribution rates and thereby increases their responsibilities.

There is a conflict of interest for many trustees who are either employees or directors of the company. Indeed there are also (different) conflicts of interest for trustees who are members or pensioners. This conflict issue is usually of greater importance than the potential conflict for actuaries. As a result of professional guidance, actuaries are very clear about their duty not to act when there is a potential conflict or to disclose a conflict.



2. We do not believe that the abolition of the MFR will have any real effect.



3. In future will there be more conflicts of interest if actuaries continue to advise both the employer and the trustees. This could happen if the trustees and the employer were in conflict and then the actuary would have to tread carefully. Arguably employers have stepped back too much at times. However, it would be expensive for there to be always two actuaries to smaller pension schemes and the regulator would have to decide whether the extra cost was merited given the rarity of the event and the strong professional standards of actuaries. It may be preferable to do more to ensure that trustees are not conflicted.

**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?**

1. There is a whole range of factors affecting how pension schemes are funded. By far the most important in recent years has been the tendency for pension schemes to invest in equities after investment, not actuarial, advice. When stock markets were performing strongly, pension schemes were forced to reduce contributions or increase benefits to enable them to retain their tax privileges. In recent years stock markets have fallen substantially and this factor (much more than funding advice) has contributed to the present funding position of pension schemes. Other factors that have significantly affected pension scheme funding have been longevity, lower interest rates and retrospective changes to pension schemes including changes to benefits and taxation that have severely impacted on pension liabilities.
2. The new Pensions Bill will require those trustees that do not take clear responsibility for their decisions to do so.

**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?**

We believe that investment advice should be given by a different advisor to the scheme actuary as recommended by Myners.

**General Insurance and the role of the Syndicate Actuary**

**Q2.15 What are the implications for actuaries of the FSA's moves to a realistic reporting regime in general insurance?**

The implications are potentially very large. Realistic reporting requires a better understanding of variability as well as point estimates, and the Actuarial profession is uniquely skilled to provide this sort of understanding.

The other feature of the regulatory ethos is the increased necessity for the company management team to form its own view on a range of areas, that it



has not had cause to look at in the past. For example in the past solvency requirement has been based on complex stochastic analysis processes and the company's management is expected to form a view on the calculations. The two requirements form a pincer

movement of a much more complex approach and the requirement for the management team to understand it better. The actuary required in future will need to be a much better communicator than has typically been seen in the past.

**Q2.16 Do you agree that a reserved role for actuaries in general insurance is unnecessary?**

The status of a reserved role with responsibility for setting a reserve (or other calculation) may be used as an excuse for abdication of the responsibility of the company's management to form its own view on a question and should therefore be avoided. However some role that ensures that suitable advice has been provided to the management team in making certain decisions could be of benefit. The role of the Actuarial Function Holder, as proposed for life offices therefore has some merit.

**Q2.17 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?**

No.

**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?**

An actuary within an investment management firm can liaise with the appointed actuary on insurance funds. There is no professional requirement for this role. The actuarial qualification is an alternative to CFA (Chartered Financial Analyst) which is the main investment qualification and the Profession can give an exemption.

There is an advantage in having an actuary on the investment team to act as interpreter. For example:

- (i) in tendering an opinion on a move from gilt to linked investments includes some actuarial reasoning namely an understanding of the liability side of investment as well as assets.
- (ii) in relation to asset matching those with an actuarial background will know what new investment tools are available and how the dynamics



of the market relate to insurance. This will balance fund managers who tend to concentrate on the shorter term.

**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?**

There is a difference in regulation in that a life office investment manager is regulated by FSA whereas a firm of investment consultants may be regulated by the Profession rather than FSA.



The Institute is not sufficiently aware of investment business to regulate it and it should all be regulated by FSA. Consultants stray into territory such as derivatives where there is no expertise in the Profession as a regulatory authority. Investment consultancy firms control about 95% of the pensions market and are advising trustees on the equity/bond profile of fund. There is however little accountability.

Not all people giving advice have investment expertise and the missing element can relate to tactical advice in the next 1 – 5 years.

### **Maintenance of professional competence**

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

Yes.

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

At the moment, an actuary only needs to demonstrate CPD if they are in a reserved role. This needs to be a minimum of 15 formal hours of CPD a year and some informal. There is wide provision of CPD for technical topics, but a lot less on business/communication customer impact type development. This reflects the requirements of the formal CPD demonstration. The profession needs to consider setting CPD requirements for business/communication customer impact aspects.

**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?**

Formal requirements should be implemented for all practising actuaries, along the lines being considered, and taking into account the comments in 2.21.

### **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?**

Yes. For the Scheme actuaries in particular, the duty to whistleblow is clear – there is ample guidance from the profession and the regulator. There are stiff penalties for not doing so and it is a duty that actuaries take seriously. Previously the pensions regulator (OPRA) thought that there was too much



reporting to them and they have amended their guidance. This suggests that actuaries are not shy of coming forward and reporting when necessary in the public interest.



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

No. Life actuaries have to decide what the FSA might be interested in. Guidance notes would be beneficial.

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

In the past actuaries have made criticisms which may have been ignored. We think there is a realisation that the profession must take a firmer stand and explain the issues to the public in clearer terms. An example of this would be when the Presidents of the Faculty and Institute of Actuaries recently wrote to the government about the pension protection fund. In the past they wrote and criticised the MFR but the message was not universally received or understood.

**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 focuses more on correct application of statutory rules as opposed to ensuring that the principles and applications reflect commitments to customers. In particular, on policyholders reasonable expectations, it does not cover rules on reserving for terminal bonus because this is discretionary. The FSA has changed the focus to policy holders' realistic expectations and the MAP needs to be amended. The oversight of this should be given to an independent body comprised of FSA, consulting actuaries, accountants and lawyers, to ensure that the new regime is of benefit to policyholders. The principles are clear but there is a danger that they could be circumvented.

**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.

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

The cross disciplinary body in 2.27 above.

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



The Guidance Notes detail high level principles which do leave a lot to the judgement of the individual actuary. However there is a danger prescriptive notes may allow compliance with the letter of these while ignoring their spirit. The recent “Principles and Practices of financial Management” have given good guidelines for with profits policies.

**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 even greater credibility to the technical standard-setting process?**

Yes. The cross disciplinary body in 2.27 above.

**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?**

No, but probably no profession does. There needs to be a more comprehensive approach. The focus on protecting consumers should mean professions work more closely together. The cross disciplinary body could point out any gaps or overlaps. It may need to include lay people to comment on end user perspective.

Within individual companies there is now a good and closer cooperation between actuarial departments and the auditors.

### **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?**

Yes.

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

Actuaries need to become more vocal in promoting and explaining their work. There should be more opportunity for cross disciplinary groups to look at issues in life assurance as has recently happened in healthcare.

**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?**



Actuaries are paid to give advice to the company, not act as consumer champions. Peer review will help on the technical side and will help to protect consumer interest but it will not guarantee this.

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

Almost never. Actuaries should advise the board or other body (e.g. with profits committee). It's then up to the company to communicate with policyholders or trustees. An exception may be major events such as demutualisations or attribution of inherited estates, where members / policyholders are being asked to choose on a

significant issue. But even here it should be an independent actuary, not an employed one, who does so.

**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?**

We do not believe that a specific requirement for peer review is necessary while the responsibility for results remains with the management team. The management team will use their judgement to determine whether they require a peer review of advice being given by the actuary – or any other advisor. Where there is a statutory responsibility, such as in the area of Lloyd's syndicates it may be appropriate to impose some requirement for peer review.

**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 Pensrose raised?**

See our comments on Q1.36.

**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?**

As the actuarial profession tends to advise corporate clients or trustees rather than the public at large this is not surprising. The FSA itself modulates its rules for different classes of customer.

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

No.

**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?**

The actuarial profession should fall in line with other professions. Both legal and accountancy professions involve audits by the professional bodies. See comments on Q1.36

The fact that the actuarial profession has no jurisdiction over firms needs to be reconsidered.



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

The regulators already have the ability to discipline actuaries working within financial services companies and this could be extended to firms of consulting actuaries who give investment advice.

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

Not currently but this will probably happen due to the peer review regime.



## CHAPTER 3

### **Roles and Responsibilities of the Government Actuary's Department (GAD)**

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The questions in this chapter are in the main not relevant to the subject under review (ie it is really a question for the Government whether they want to maintain GAD or use consultants) and the pertinent question is not how GAD now fulfil their non-supervisory role but how the replacement team of actuaries at FSA fulfil this role. In particular whether regulators are in a better position post Equitable to challenge appointed actuaries' assumptions underpinning valuation.

Overall regulators must now be in a better position to challenge actuaries under the new regime of peer review and audit than previously (but nothing can be foolproof). FSA standards now require far more documentation, which will support the above and the auditor should be able to challenge any dubious assumptions or methods.

The FSA have already used their powers to send in external experts to Standard Life following their realistic balance sheet problems earlier this year.

The Whistleblowing statutory duty on actuaries who are approved persons should also increase the chance of issues becoming apparent to FSA.

GAD used to act as an informal sounding board on a confidential basis which was useful. FSA still allow informal discussions but not on a confidential basis.

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(The main actuarial input was focused on the technical questions.)

