

Response to Morris Review of Actuarial Profession: Interim Assessment

As an actuary working in the General Insurance field, I felt the Interim Assessment was a fair and objective report. I have some concerns about how the report was reported in the media and hope that when the final report is published, the accompanying press release highlights some of the good areas of current actuarial work and practice.

General Comments

The report concentrates a great deal on the issue of reserved roles and draws a number of conclusions that seem destined to be applied profession wide. There is, in my opinion, a significant risk that this will lead to unintended consequences in those roles that are non-reserved.

A number of comments are made about “Public Interest” in the report. One of the problems with “Public Interest” is that it is not always clear what actually is in the public interest and, often, it is only with the benefit of hindsight that it is clear what the public interest should have been.

In the report reference is made to the potential extension of the role of the FRC to encompass Actuaries as well as Accountants. Although, the rationale for it from a cost perspective makes sense I have a concern that the oversight of Actuaries would suffer in two critical respects:

1. The Actuarial profession is significantly smaller than the accountancy profession and as such the oversight given by the FRC might be superficial compared to a separate Actuarial body.
2. The roles performed by Accountants and Actuaries are different and require different skill sets. They also require different styles of reporting the results of their work.

The following outline some specific concerns and comments that I have about the options presented.

Improving Clarity of Advice

Option 2 has been the stated aim of the profession in both the education and CPD arenas for at least the last 10 years, and has had limited success.

A mixture of Options 1 & 3 is probably a realistic optimal solution. It is important for the end-use to require good quality communication. There appears to be evidence that the end-user has been prepared to accept mediocre communication too often from actuaries. However actuaries do need to improve the quality of their documentation and the assumptions that they make – it may be appropriate that Practice Standards should be strengthened to require a higher degree of disclosure within the documentation.

Option 4 is not relevant for a number of roles.

Reserved Role in General Insurance

My personal preference is for Options 1 (status quo) or 2 (certification by approved person). I feel that a full reserved role may lend an unwarranted degree of confidence as regards the adequacy of reserves for a general insurer. It is important for management to take responsibility for the financial reporting of a general insurance company. There has been considerable disquiet, in the US, about the value of the US Actuarial opinion on the adequacy of reserves given the almost perennial adverse development of reserves that has been occurring. In many respects the Actuarial Opinion has given a false sense of security.

My underlying concern with Option 4 and the role of the auditor is that the auditor should seek advice from an actuary and get agreement that the reserves held are reasonable. There is a risk that, within this option, the auditor could be the tail wagging the dog and control the results published in the accounts, hence reducing management accountability.

Options for Reporting and Whistle-Blowing

My main concern with all of these options is with regard to non-reserved roles. If whistle-blowing is to be required for non-reserved roles explicit guidance is needed from both the profession and, more importantly, the relevant regulators.

Broadening Actuarial Education Provision

In my opinion, the fundamental weakness of a University, either BSc or MSc, actuarial course is that the student does not get a good basic exposure to the core skills needed to perform the job.

I have worked with people who have entered the profession through both routes. In my opinion, the university approach does not significantly reduce the time for an actuarial student to become a rounded actuary with appropriate professional knowledge and skills.

I would welcome the broadening of actuarial education provision but it must be remembered that the profession is a small one.

Options for CPD Monitoring

Option 2 – extending the scheme to cover all actuaries on a triennial monitoring process would be my preferred option. For Actuaries working in non-reserved roles in a company environment there can be pressures on expenses resulting in the weakening of ongoing CPD for actuaries within the company. A compulsory regime would make it easier for actuaries to maintain their CPD and force companies to create time for CPD fulfilment.

In general, I would welcome a greater focus on CPD within the profession. There is a clear need for Actuaries to keep up with developments:

- Within the actuarial field, using national and international resources. For example in general insurance encouraging UK actuaries to attend meetings of the Casualty Actuarial Society would broaden their knowledge of current actuarial thinking.

- External to the actuarial field, I think the profession should help actuaries become aware of “new areas of thinking” and encouragement should be given, via the CPD Scheme, to learn about these new areas.

Actuarial Standard Setting

My preference would be for Option 2, but not under the auspices of the FRC. The profession needs to be seen to have independent oversight of its standards.

I feel very uncomfortable with allowing the regulator to set standards as well as the rules. Also, who would set the standards for roles that are either non-reserved or outside of the remit of the regulator?

Scrutiny of Actuaries in General Insurance

If a reserved role is introduced my preference would be for the introduction of a peer review.

From a pure professionalism aspect, the concept of regular peer review should be considered by all actuaries to help ensure that the final product is of the highest quality and utilises as much current thinking as practically possible.

The views expressed in this reply are mine and mine alone; they do not reflect the views of my employer or any of my colleagues.

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