



The Pensions  
Management  
Institute

*Pensions Professionals  
in practice*

PAG/SMW/EX17R/04

The Morris Review  
Room CG/08  
1 Horse Guards Road  
LONDON  
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2 September 2004

Dear Sirs

The Pensions Management Institute (PMI) is pleased to have the opportunity to comment on the consultation paper published as part of Sir Derek Morris' review of the Actuarial Profession.

The PMI is the professional body for people working in the pensions sector. The PMI's members work as pension managers, consultants and technical specialists in consultancies and insurance companies. Many are also actuaries, pension lawyers or company secretaries. Their experience is therefore wide ranging and has contributed to the thinking expressed in this response.

In our response to the consultation paper the PMI is commenting only on the role of the Actuary in respect of pension schemes and the Government Actuary's Department. Our comments are not in respect of Life Offices or general insurance.

Sir Derek may be aware that some of the members of the PMI are also actuaries. Of a total membership of 4224, 3% are from the actuarial profession. However, our response is from the perspective of the Pensions Management Institute and not from an actuarial perspective, and in some respects our views will, therefore, differ from those of the actuarial profession.

We very much welcomed the opportunity to meet Sir Derek on 18 August, and trust that he found that meeting helpful. At the close Sir Derek asked that we include comments in this response on two issues, and we address those two issues at the start of this paper, before moving on to the formal questions in the consultation document.

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**A. *Do Trustees have adequate resources to perform the role effectively?***

Like many questions about trusteeship, this is one where the answer is both “yes” and “no”. Pension schemes for large employers, and larger pension schemes generally, will have well resourced trustee bodies with good administrative back up and comprehensive training. The small schemes, and schemes where the employer is small, will be able to provide fewer resources. This is why the PMI has a Trustee Group as this is an opportunity for trustees of all sizes of scheme to interact and learn.

The other difficult element of this question is how to define what resources a trustee needs. We would argue that trustees should sit the PMI Trustee Certificate as a bare minimum, and should be supported in so doing. We would also argue that employers should understand that for a pension scheme to be run effectively requires more input than simply the pension contribution. However, beyond that the needs of the trustee board will vary depending on the type of scheme, whether administration is in-house or out-sourced, and the knowledge of the trustees themselves.

**B. *What are the advantages and disadvantages of paying for actuarial advice (both in general terms as well as in respect for work performed as the Scheme Actuary) on an hourly rate basis or fixed fee?***

The fixed-fee approach has much to recommend it, providing as it does certainty of cost. However, for more complex schemes working on a fixed fee basis may result in the provision of a standard service which may not meet the needs of the particular scheme. However, fixed-fees, even for formal triennial actuarial valuations, are becoming more common for all schemes, although they are dependent upon the quality of the data that the trustees can provide to the actuary. There is also the risk with a fixed-fee that the fee level will be priced to ensure that the actuary covers costs with an allowance for a margin resulting in higher fees being paid than would have been the case if charges had been levied on an hourly rate basis.

Hourly rate fees can lead to escalating costs. However, they do allow the actuary time for “free” thinking – time which can improve the overall decision making of the trustee.

On balance our view is that most, if not all, schemes and employers will wish to use a combination of both types of remuneration.

In the remainder of this response we address each question from the consultation paper in turn.



## **The Role of Actuaries, the Profession and the Actuarial Services Market**

### **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?***

- 1.1 The strength of the actuarial profession is the unique combination of different (although related) disciplines of finance, economics and statistics. The weaknesses tend to be that:
- a) Actuaries can become too hidebound by statistics and the past to consider and factor into advice given issues that might fall outside the boundaries of normal statistical probability;
  - b) Actuaries can get caught up in the technicalities and lose sight of the end user and the reasons for the exercise in the first place; and
  - c) Actuaries can place an over reliance on a seemingly spurious degree of accuracy.

On the whole, however, it is the view of the PMI that actuaries are well equipped for their role.

***Q1.2 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?***

- 1.2 In our view we do not see that there are areas where more actuarial involvement would be helpful, or areas where less involvement would be beneficial. However, the PMI takes the view that actuaries, as for all professionals (and most employees generally) need to work closely as part of a team of multi-skilled professionals in order to tackle today's complex problems.

***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?***

- 1.3 Whether or not there are specific roles reserved for actuaries in Statute law, defined benefit pension schemes will always have a requirement for actuarial input and advice, and therefore even without Statute actuaries to



defined benefit pension schemes will always have specific roles and responsibilities.

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

- 1.4 It is possible that reserving a strong statutory role for the actuary has made some actuaries less inclined to work as part of a multi-professional team. However, it is mainly for the client to manage this, rather than it being an inherent fault of the statutory role.

***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?***

- 1.5 It is possible that in respect of the Guidance Notes greater peer review may be of assistance in producing Guidance that is both technically sound (of prime importance) but also practical to implement.

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

- 1.6 As in our response to Question 1.2, it is our view that actuaries, and indeed all professionals working in Pensions Management, currently work in multi-professional teams, and this is a model that will only increase in importance as methods of retirement provision broaden in response to changing patterns of employer sponsorship and individual saving.

**Accountability of Actuaries**

***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?***

- 1.7 It is the view of the PMI that in the schemes paying the transfer values, Scheme Actuaries had no choice about whether or not a transfer value should have been calculated – the law required the calculation of a cash equivalent and required that the trustees pay it as long as the receiving scheme was appropriately approved. The law did not, nor should it have,



required that the Actuary or trustees made any assessment as to whether or not the transfer was in the best interests of the member.

The actuaries involved in the design of the products to which the cash equivalents were transferred – personal pensions – did not necessarily design poor products, and in fact personal pensions have a key role to play in UK pension provision. The key issue was that a good product – personal pensions – was sold to those for whom they were not designed – occupational pension scheme members and therefore the mis-selling “scandal” was a failure of the regulation of those giving advice, not a failure of the actuarial profession.

In our conversation during our meeting on 18 August the question was raised whether actuaries had a responsibility where the charging structure was also designed by actuaries and as a consequence of which people lost money when terminating contracts. Clearly this is moving outside our area of formal comment and we still take the view that this issue is largely one of mis-selling (or mis-buying) rather than a fundamental failure of the actuarial profession. Many of those who lost out had only participated in the schemes for a short period and one could liken the position to that of a consumer, purchasing a car and then changing his mind and selling it a month or two later only to find the car was worth significantly less than had been paid in the first place – this is not considered to be the fault of the car manufacturer.

***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?***

- 1.8 Whilst it is clear that actuaries will feel a responsibility to their employer (or the partnership in which they are a partner) actuaries should be responsible and accountable to the client who is paying the fees. In the context of a defined benefit (DB) pension scheme this will be either the trustees, or the sponsoring employer, but not both.

***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?***

- 1.9 The actuarial profession has accepted that the profession has an obligation to serve the public interest. The best way of achieving this is to be intellectually rigorous and to have the highest standards – both in



terms of professional conduct, but also in terms of the quality of the judgements made when providing advice to clients.

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

- 1.10 Compensation should only be paid if advice is negligent rather than simply poor, and if there has been financial loss. It is for the client instructing the actuary to be clear about the skills and the quality of the advice given. Negligent advice would be advice given without due regard to the relevant factors. Poor advice is something that can only be defined by hind-sight, which leads to a risk of judgement of yesterday's actions by today's standards.

**The Profession**

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

- 1.11 It is our experience that the profession actively engages with other professions. There is regular contact between ourselves and the actuarial profession, and this is not because we have some members in common, but because both we and the actuarial profession recognise the benefits of a close dialogue and exchange of views. We are not able to comment on the profession's engagement with Government or business as that falls outside our area of experience.

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

- 1.12 The actuarial profession can, in general terms, be seen as being re-active rather than pro-active. Whilst there is probably a great deal of internal debate within the profession, little of that seems to come to public knowledge until some time after the event. The debate on mortality is a case in point – only now is the profession adjusting mortality tables used in valuations despite the knowledge of people living much longer than in the past having been in the public arena for some years.

It is also the case that much of the debate on the future style of occupational pensions (defined benefit, defined contribution, career revalued average earnings, hybrid) appears to have been led by those other than in the actuarial profession and the appearance is therefore given of the profession not taking an active role in these developments.



On the investment side, there is a great deal of “thought leadership” by actuaries within investment consultancies, and in consequence the implicit criticism of actuaries in respect of pension benefits does not hold good in respect of investment actuaries.

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

- 1.13 It is the view of the PMI that the actuarial profession has achieved a high degree of recognition amongst the public, which is impressive given the highly technical nature of the work that actuaries do. In consequence we would suggest that the profession has done enough to promote the work of actuaries – certainly in the pension context.

***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?***

- 1.14 We understand that there are already lay people on the Committees relating to disciplinary issues. We understand that further changes to the governance structure are being proposed by the Profession and we would suggest that we should wait until these are enacted before imposing further change.

**Entry into the Profession**

***Q1.15 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?***

- 1.15 It is difficult to see how it would be possible to set the curriculum without involving members of the profession in all stages and areas. However, we do also take the view that there should be input from the end users – such as trustees and Scheme Sponsors to some degree.



***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?***

- 1.16 The current curriculum includes communication as an element, and the profession discussed this part of the curriculum with the PMI whilst its inclusion was being debated. The current curriculum seems to be broad enough to deliver the broader skills required, although in common with all Institutes offering professional examinations, the curriculum will change over time, and that can be seen with the actuarial curriculum, as with many others.

In any programme of training there will be a time-lag between the agreement of a syllabus and its use in the qualification structure and this can result in accusations of a syllabus being out of date or containing irrelevant elements. This is undoubtedly an accusation that can be levied as much at the actuarial profession as at any other. For the actuarial profession, as for the PMI and other professions, it is important that whilst the quality of the syllabus and examination process remains of the highest level, the syllabus remains relevant to the skills needed in performing the professional role.

Perhaps if criticism of the syllabus can be made, it is in respect of a perceived lack of involvement of outside consumers of actuarial advice in the establishment of the syllabus. This is something that we at PMI have taken on board in our most recent work on the syllabus and tuition for our primary Associateship qualification, seeking input from all interested parties, whether PMI members or not.

The syllabus for qualification alone, however, is not adequate to ensure that someone once qualified remains competent, and we therefore support the actuarial professions' adoption of Continuing Professional Development (CPD).

***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?***

- 1.17 The length of time for students to complete the actuarial examinations whilst gaining practical work-based experience seems in keeping with many other professions such as lawyers and doctors.



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

1.18 We do not feel qualified to comment.

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

1.19 The new syllabus should aid the communication and application skills of actuaries. The introduction of a business awareness module is to be welcomed. The PMI takes an interest in the actuarial syllabus because we offer exemptions from 5 of the 9 examinations PMI students have to pass to qualify as APMI.

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

1.20 The actuaries with whom PMI members come into contact appear to come from a wide range of backgrounds and therefore it is our view that there are no issues over diversity of background. As we have said earlier in this response, the profession has an open and on-going dialogue with the PMI – including elements of the syllabus - and so we are of the view that the profession does interact appropriately with other professions.

***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?***

1.21 Given the numbers of students, and the numbers of those qualifying, market economics dictate that there will only be one provider of actuarial education in the UK.

### **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?***

1.22 The Pensions Act 1995 has probably been the main driver of current demand for actuarial services. However, over future years the demand from occupational pension schemes for traditional funding and valuation services will diminish as the number of DB arrangements decreases.



***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?***

1.23 There is a wide range of choice of firms for those wishing to appoint an actuary, and much competition between the firms. The PMI is not, therefore, of the view that the market is in any way constrained.

***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?***

1.24 Trustees find little difficulty in switching actuarial provider because, unlike a pension administrator or a legal adviser, the actuary can work from the existing position without requiring such an in-depth knowledge of the history of the scheme.

***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?***

1.25 It is the case that perhaps 20 years ago or so there was little understanding of the advice being given by actuaries. However, it is now far more common for trustees (and employers) to challenge the advice and the underlying assumptions and this leads to better decision-making. This trend will inevitably accelerate with the legislative requirements in the Pensions Bill 2005 for trustees to have “knowledge and understanding”. However, where actuaries are not challenged or even questioned by trustees, it is probably a failure of the trustee (perhaps not having received adequate training) rather than a failure of the actuary.

It is also true that, in the past, actuaries have not been good at communicating effectively with clients and encouraging the debate that now takes place between many trustee boards and their actuary. This is something that has changed in the past five to ten years and is a trend that will undoubtedly accelerate. It is a trend that has been driven in part by trustees and employers themselves being more interested in a scheme as the financial health of that scheme weakens, but also by a recognition by the actuarial profession itself that the modern world requires better communication and explanation.



***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?***

1.26 Over the past 10 years the introduction of defined contribution (DC) schemes and the consequential rapid maturity of (in many respects) legacy DB schemes has been a key influence. The recent move of DB schemes from surplus to deficit has also been an influence. In the future it is likely that there will be an increasing role for actuaries on the investment side, in product design (e.g. of annuities) and in risk consulting rather than in respect of DB pension advice.

***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?***

1.27 It is extremely rare for the PMI to encounter a scheme where there is an in-house actuary. This is partly because it is difficult to ensure there is appropriate peer review, partly because an in-house arrangement will not offer intellectual stimulus to an actuary, and also because in-house actuaries would not obtain a broad range of experience. Those actuaries who do work for pension schemes normally do so in a role that is separate from that of the scheme actuary, such as the pension manager.

***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?***

1.28 The PMI views the actuarial profession as a competitive market with no real constraints on that competitiveness.

***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?***

1.29 In the pension field, the PMI does not see the Government Actuary's Department (GAD) as competing in or having any material impact on the open market.



## **International Comparisons**

We have no comment on any part of this section.

## **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?***

1.34 All professions can learn lessons from each other, and the actuarial profession is currently making changes which will be informed by the experience of others. The actuarial profession has a key role to play in standard setting – for example in the publication of Guidance Notes. It is possible that a fair criticism of the profession is that the issue of the Guidance Notes could have been quicker in the past, and could also have involved external bodies (such as the PMI or, indeed, the recipients of the advice governed by the Guidance Notes) in their development.

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

1.35 IAS 19 and IORP will inevitably have an influence, particularly IORP as that sets aside responsibilities for actuaries, and actuaries alone.

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

1.36 It would appear that the actuarial profession is more regulated than many others, and therefore perhaps other professions could learn from the actuarial.

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

1.37 It is important that regulation allows intellectual flexibility as actuaries are looking to the future which cannot be accurately predicted. Therefore, there is no one “right” answer. Any form of regulation has to take this into account.



## **The Current Regulatory Framework of the Actuarial Profession**

### **The Regulatory Role of the Profession**

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

- 2.1 The current regulatory framework requires high standards of conduct and judgement. In respect of pension schemes it would appear that this is working well and needs little, if any, change.

#### ***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?***

- 2.2 In pension terms the “consumer” can be the trustee, but also the scheme member. The relationship with the scheme member is indirect for the actuary as it is the trustee (or employer) who will be the client. It is not clear that for the actuary any regulatory framework should concentrate on the member as the advice is for the trustee (or employer). Where a consumer takes financial advice, it should be for the FSA to set the regulatory rules, and this it currently does.

#### ***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?***

- 2.3 The concept of the dual role is not exclusive to actuaries; lawyers and auditors also have a dual role. There is clearly the potential for a conflict of interest in any arena where there is a dual role, but this does not mean that such conflicts are unacceptable as such – it is a failure to recognise and manage those conflicts that gives rise to the problems and the PMI is of the view that in respect of pension schemes there have been few, if any, such failures.

#### ***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?***

- 2.4 It is a perennial complaint of members of the PMI that there is already enough regulation. We would counsel as little statutory regulation and as much self-regulation as possible, particularly as in the pensions arena we do not see that there has been a failure of self-regulation.



## **The Role of the Appointed Actuary**

As our comments are confined to actuaries in the pensions context, and GAD we have no comments on this section of the paper.

## **The Role of the Scheme Actuary**

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

2.9 The Scheme Actuary role should be reserved for qualified actuaries. We are not convinced that other professions would be able, or willing, to offer advice drawing on the required disciplines underlying actuarial science.

***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?***

2.10 In the event of no effective challenge of actuaries by trustees then there is a risk that actuaries will be setting policy by default. However, this is not a fault of the profession itself, but a failure of trusteeship. Such failures can be resolved through appropriate training of trustees, and this will be enhanced by the knowledge and understanding provisions of the Pensions Bill 2004.

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

2.11 It appears to us that the system of peer review within the profession, supplemented by the comparison of actual experience against that assumed, provides adequate checks and balances.



***Q2.12 To whom should the Scheme Actuary be accountable? 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? Is there a need for a separation of these roles?***

2.12 The Scheme Actuary has to be accountable to the trustees of the scheme. An actuarial adviser who is not the formal Scheme Actuary will have a potential conflict of interest if s/he is advising both the trustees and the employer. However, it is not always the case that it is better for separate appointments to be made leading, as this will do, to inevitable increases in costs. For example, in the preparation of figures for the company accounts (SSAP24 and FRS17) there is logic in using the Scheme Actuary for this work. On the other hand, there are some instances (for example, a scheme merger) where separate advice is imperative. The PMI would argue that this is not an area where regulation or statute will be of help. However, we completely agree that any potential for conflict should be recognised, and there should be an adequate framework for the management of any conflicts of interest that do arise. We question, however, whether legislation is able to adequately manage such potential conflicts, and the alternative – of requiring the employer and trustee to use separate advisers – whilst being good for the actuarial profession will only increase employer costs to no general benefit.

***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?***

2.13 Actuarial advice has clearly been a key influence in the way schemes have been funded in the past. However, other strong influences have been the employers' desire for low cost DB pension provision, and the employees' desire for benefit improvements.

***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?***

2.14 There are no other issues that the PMI would like to bring to the review at this time.

### **General Insurance and Role of the Syndicate Actuary**

We have no comments on this part of the consultation paper.



## **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?***

2.18 There are no issues of which we are aware from our perspective that we would like to bring to the attention of the review.

***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?***

2.19 We have no observations to make in respect of this area of regulation.

## **Maintenance of Professional Competence**

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

2.20 The PMI strongly supports the profession as being the right body for the award of Practising Certificates as it is only the profession which can judge the quality or otherwise of the Continuing Professional Development undertaken.

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

2.21 The PMI strongly supports CPD requirements and view those of the actuarial profession as appropriate and in need of little change.

***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?***

2.22 As the PMI is strongly supportive of CPD, we support the proposals by the profession to extend the concept.

***Q2.23 Are there any other changes to the CPD programme that you would like to see?***

2.23 We have no other suggestions on the actuarial CPD arrangements.



## **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?***

2.24 We are of the view that the current legal and professional duties provide sufficient safeguards for disclosures.

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

2.25 We are of the view that it is sufficiently clear when concerns should be reported, and OPRA are to be applauded for this.

***Q.2.26 Is there an appropriate level of disclosures by actuaries to protect the public interest?***

2.26 The answer to this question does depend upon what is deemed to be in the public interest. In the context of pension schemes, the scheme member is entitled to a huge array of information, but this is an opportunity that few members exercise.

## **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?***

2.27 We have insufficient information on which to comment.

***Q.2.28 Does the technical guidance need to be updated more regularly and are fast track processes required to provide guidance on urgent issues?***

2.28 We have no comment on this question as it seems to be addressed to actuaries not working in the pension arena.

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

2.29 We are of the view that technical guidance should be provided by the profession.



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

2.30 We are of the view that to reduce the current levels of discretion in the technical guidance has a risk that advice will become “lowest common denominator” style and will not, therefore, be of much assistance to those in need of sophisticated advice. Furthermore, as much of actuarial advice considers the future there is a need for flexibility and the use of professional judgement – resulting in a need for allowance for much discretion in technical guidance.

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

2.31 We take the view that the proposed Actuarial Standards Board should be given an opportunity to work before further change is proposed.

***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?***

2.32 As we have said earlier, there is a healthy and on-going dialogue on a variety of matters between the PMI and the actuarial profession. We would, therefore, suggest that the answer to this question is “yes”.

### **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?***

2.33 The PMI’s experience is that the actuarial profession is open. We have a dialogue with the profession and this is not because we have members in common.

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

2.34 The PMI is of the view that all professions could be more open, and can benefit from taking into account the standpoint of the end user when designing and drafting any communication.



***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?***

2.35 As this is a question in respect of life assurance, we have no comment.

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

2.36 Whilst actuarial opinions are given to the trustees, they are available as of right to scheme members. The number of scheme members exercising their right is so few as to be almost nil. Copies of the advice provided is only sought when there is a problem, by which time it is too late. Requiring schemes to send actuarial information automatically would only increase costs and paper waste as it would not be read by the significant majority of scheme members.

***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?***

2.37 As this is a question relating to insurance, we have no comment.

### **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 Penrose raised?***

2.38 It is difficult to see how a disciplinary procedure can be anything other than reactive. Until the new procedure introduced on 1 January 2004 has had a reasonable time to operate it is difficult to comment on how effective it will be.

***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?***

2.39 We are of the view that, on the whole, the profession is successful.



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

2.40 We would suggest that the review allows the new procedure to be given a chance to be tested before further change is recommended.

***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?***

2.41 Where costs are concerned ultimately it is the member (pension scheme or policy holder) who will bear any increased costs. It is not clear that the proposal will do much more than increase bureaucracy and "box-ticking" which is of little if any benefit. In anything that looks forward to the future there will be an element of uncertainty and this has to be taken into account when changing the way the profession is regulated. In this respect it is a completely different profession from those of accountancy or audit, both of which look to the past.

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

2.42 We are of the view that discipline would be best undertaken by the profession.

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

2.43 In our experience through our dialogue with regulators the answer to this question is "yes".

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

***Q3.1 What is your relationship with the GAD? Have you used, or do you currently use the GAD's services? If you are a client of the GAD, have you put the provision of actuarial services out to competitive tender? If not, what process do you use and why is it preferable?***

3.1 The PMI has an excellent relationship with GAD and have found GAD to be open to dialogue. Indeed representatives of GAD speak at PMI events.



***Q3.2 If you are currently, or have been in the past, a client of GAD's are you satisfied with the quality of service that you receive(d) from the GAD? How could it be improved? If you also have experience of working with private sector providers, how does GAD's service compare to that of private sector providers? Do you have any comments on the basis on which GAD charges for its services?***

3.2 We have never been a client of GAD.

***Q3.3 The Government Actuary plays a public interest role in reporting to Parliament on social security matters and preparing the national population projections. Are you satisfied with how this role is currently performed? Could the market or anyone else perform these functions?***

3.3 We cannot see that anyone else could perform this role.

***Q3.4 Are there any other services which are better provided by the GAD and/or the Government Actuary than by other providers of actuarial services?***

3.4 We do not think that there are services better provided by GAD than others, although this answer must be read in the context of our response to question 3.5.

***Q3.5 In your view, which of the 10 reasons in para 3.20 highlighting the rationale for a separate GAD remain valid? Are there any other reasons for maintaining the GAD as an independent entity?***

3.5 In the view of PMI, the valid reasons for GAD listed are:

- a) offering independent actuarial advice to government (1);
- b) offering confidentiality on sensitive issues (2);
- c) delivering consistent advice across the public sector (3);
- d) provision of a cost effective government actuarial service (5);
- e) provision of advice not driven by a profit motive (6);
- f) provision of advice with no conflict of interest (7).

***Q3.6 Overall, in your view is there a continuing need for a separate GAD? Are there alternative institutional structures for the provision of actuarial advice to government departments, Ministers and the wider public sector that the review should consider?***

3.6 In our view the role performed by GAD, at least in respect of the elements in our response to question 3.5 mean there is a continuing need



for a separate GAD. We think that the risks of unmanageable conflicts of interest in using alternative structures rule out their use.

***Q3.7 If you think that GAD should not remain as a separate entity, do you think there would still be a continued need for the role of the Government Actuary?***

3.7 We take the view that there is still a role for GAD.

***Q3.8 How does the GAD compare with structures used in other countries for the effective provision of actuarial services to government?***

3.8 We are unable to comment on this question.

We trust that you find our response to the review helpful. Please do not hesitate to contact us if you would like to discuss any of these matters or if we can be of further assistance.

Yours faithfully

Mrs Penny Green FPMI  
External Affairs Committee