



# ACTUARIAL SOCIETY OF INDIA

09 09 2004

**Liyaquat Khan**  
**President**

## Response to the Morris Review

We are writing from the Actuarial Society of India.

We believe we are an interested party in the Morris Review of the Actuarial Profession in the UK. Firstly, many of our members are also members of the Institute of Actuaries or the Faculty of Actuaries. We have agreements on mutual exemptions. Importantly again, our society has had very close links with the British institutions. We have tried to model our activities on those bodies and have been receiving a lot of support and encouragement in our efforts. (Annexure 1)

Inasmuch though as legislative or other regulatory requirements under which our members practice in India are not quite what they are in the UK, our responses on the detailed questionnaire under which information or views are sought for the Morris Review would be rather selective, as much from a degree of unfamiliarity with the situation as it has been developing in the UK as from relative non-relevance to our members in their work in India.

We would preface our responses, in relation to the terms of reference for the review, following as it does on Lord Penrose's report on the Equitable Life Inquiry, to dwell first on some overviews on the actuarial profession, more particularly in the UK, and generally on factors that go to make a profession. These views are as current as the conclusions as Lord Penrose came to in his inquiry.

We would go first to an address delivered to the Institute of Actuaries of 4 June 2003, in the series Staple in Reading, by Hon'ble Sir Michael Hart. The subject was on professional integrity and it is published in the British Actuarial Journal Vol 9 Part V No.44. We shall be quoting Sir Michael to retain the flavour of his views.

Sir Michael Hart quotes from a report of the Office of Fair Trading (OFT) as of March 2001:

***“How goods and services are supplied is generally best determined between producers for the custom of consumers. In most markets, the patterns of supply which emerge from this process are healthily unpredictable, mixed and evolved over time. But in the professions, there remain restrictions on competition which do, in effect, prescribe how services should be supplied. In assessing whether such restrictions should be permitted to remain, the onus of proof should be on the proponents of the restrictions.*”**



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*The aim of the OFT is to make sure that markets work well – for the ultimate benefit of consumers.”*

On this, Sir Michael notes, *“According to the Director General’s March 2001 report, restrictions are only to be allowed if they are the minimum necessary to achieve consumer protection or if they maximize overall consumer benefit by striking the right balance between consumer benefits from competition and from protection: the right balance being in the final analysis a matter of judgment of the competition authorities rather than of the professions or other regulators.”* Sir Michael is particularly concerned here that the test of ‘consumer benefit’ lacks objective definition and the OFT is to be the ultimate arbiter.

To quote Sir Michael Hart further, *“Note that the charm for the OFT of the hidden hand of market forces lies precisely in the unpredictability of consequences of freeing up the market. It is at root an essentially romantic view: a world where rational men and women pursue their self-interest and everyone prospers as a result. The natural starting point of the professional regulator is rather different. The regulator is conscious of the fact that the exercise of his profession necessarily involves an unavoidably large degree of “informational asymmetry” between the professional and the client; but it is not “market failure” that he fears as a result, but “service failure”. The regulator is conscious of the need to design rules that can with some confidence be predicted to foster good practice (which protects the client and the reputation of the profession) rather than to authorize bad practice. Moreover, it is not just the client who need protecting. The professional (each in his different way) owes wider duties than that. A degree of caution is required, or at least pardonable, before restrictions which have been relied on in the past to foster the culture of integrity within a particular profession are sacrificed at the altar of competition. While it is clear that some balance has to be struck, it is not clear to me why the judgment of a properly organized and suitably accountable professional body as to what is required of its members if the public is to be protected should not stand unless, from the perspective of competition law, it can be demonstrated that the particular role is unnecessary and its removal is likely to be positively beneficial. In adapting its practices to meet the demand of a rapidly changing society, the profession which chooses to proceed with caution is entitled, I would argue, to the benefit of the doubt. It should not be lightly assumed that every failure to relax a restraint is motivated by a flawed anticompetitive instinct. The first duty of a profession is to ensure that the public is safe in its hands... the prima facie rule should be that the profession, if otherwise seen to be appropriately organized and run, is entitled to exercise its own judgment.”*

As Sir Michael again states, *“Professions such as that of the advocate or the actuary, stand in a particular relationship to the social system as a whole, in a way in which ordinary businesses do not. It is the public interest dimension of their function which distinguishes them. It is the public dimension rather than a desire to pursue narrow self-interest, which historically explains and alone can justify the fact of collective association, collective self-regulation and sometimes, collective self-restraint, which a free market economist finds so puzzling. The belief that certain skills can be identified and that control of the way in which those skills are supplied is, or maybe, necessary if their public value is not to be corrupted by inappropriate*



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*exploitation, is (pace Adam Smith) makes it desirable that the members of the same profession should assemble. The collective experience and wisdom of the professional body, expressed through its codes, its guidance notes, its educational requirements, its disciplinary practices and so forth, are necessary conditions of the professional integrity of its individual members.”*

We move next to what someone from within the actuarial profession has said.

C.D.Daykin, the government actuary in the UK, has provided a guest editorial for the British Actuarial Journal (BAJ, Vol 9, Part V, No.44 for the year 2003) entitled “Professionalism and Trust”. To quote Daykin:

*“In the UK, and certain other countries, the major learned professions were established on the basis of royal charters. This means that they may have public recognition so long as they demonstrably serve the public interest rather than solely the interests of their members. What then are the characteristics of such a profession? A succinct definition of the essential elements of any profession was provided by Justice Willard Estey, a former member of the Supreme Court of Canada, in his keynote address during the celebration of the centenary of the actuarial profession in North America in Washington D.C. in June 1989...first skilled intellectual technique must be associated with the professional undertaking. Second, there must be, at the core of the profession, a voluntary association bound by a code of conduct. Third, the profession must have a formalized mode of enforcement of that code upon its membership.”*

Daykin goes on to note:

*“The existence of professions is not universally viewed as a good thing. Some would see them as inhibiting competition, erecting unnecessary barriers to practice and ramping up the earnings of their members through restricting entry in order to limit supply. However, the award of a royal charter and the accompanying privileged position that a profession enjoys demonstrate a belief that the professions operate in the public interest. The benefits to the public in having the professions can be seen as including*

- *Quality assurance in*
  - *Educational standards for qualification*
  - *Continuing education and development*
  - *Professional norms and standards of practice*
- *Reliability of professional advice and reasonable degree of consistency*
- *Availability of the required service in accordance with reliable standards*
- *Fiduciary relationships between the professionals and their clients*
- *The possibility of clients and third parties being able to lay a complaint and seek redress.*

*An important element of professionalism as seen in the context of membership of an organized professional body is the concept of fiduciary relationship between the professional and the client... a fiduciary relationship entails mutual trust based on willing disclosure, with no material information withheld by the client. The professional trusts the client to disclose all*



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*relevant information and the client trusts the professional because of education, membership of a professional body, standards of practice, practicing certificates etc. The professional focuses on addressing the client's interests and gives high quality advice, tailored to the client's needs, but having proper regard to professional standards. Remuneration is usually fee based to avoid financial conflicts of interest and the professional should disclose any other financial interests.*

*People do not trust professionals out of blind faith but because they have had personal experience of the profession or on others who have. Trust is often based on personal recommendation. However, even in the absence of personal recommendation, or individual experience, trust can be based on the assurance of quality offered by membership of a chartered professional body and the knowledge that the professional has a lot to lose if he or she does not live up to the standards of their profession.”*

Daykin does go on further to add:

*“However, much in society would appear to have changed in recent years. The press would sometimes have us believe that professionals cannot be trusted anymore. There is little doubt that some professional behaviours have done untold damage in undermining trust... also, it is probably the case that the concept of trust has more generally been devalued in our society. As a result, most people are unwilling to take anything for granted without justification, argumentation or proof. Regulation is becoming more and more prevalent as the root to controlling behaviours, and to many people the concept of self-regulation appears less and less convincing. Indeed, many would cynically argue that no organization can realistically be ruled by consideration of the public interest, and that professions are in reality self-serving. For actuaries, the unfolding events at the Equitable Life may have done similar damage to the public perception of whether they can reasonably rely on actuaries.”*

These must have been difficult words for Daykin to come out with. However, in his confidence in the inherent strength of the actuarial profession, he is led back to recalling from his Presidential Address to the Institute of Actuaries ten years earlier, how he had raised the importance of the clients, employers and the ultimate consumers of actuarial services being able to trust their actuaries on the grounds that they are in the profession that turns financial promises into reality.

On the question of restoration of trust, Daykin refers to the 2002 BBC Reith Lectures delivered by Onora O'Neill in which she explored the concepts of openness, transparency and accountability as a basis of trust in societal relationships and goes on to mention what Jeremy Goford had taken up in his Presidential Address to the Institute of Actuaries in 2002, when he places emphasis on the need for individual actuaries “to demonstrate with openness, transparency and accountability how we make financial sense of the future in both our prudential and our entrepreneurial roles.

Elaborating on this “mantra”, Daykin goes on to say:



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*“Openness implies clarity in terms of engagement and expectations, the avoidance of jargon and the willingness to offer full explanations in language easily understood by the layman. It suggests readiness to be challenged, indeed, perhaps, even a willingness to provoke and encourage challenge, and a clear objective of seeking to limit any possibility of confusion and misunderstanding.”*

*“Transparency involves placing all the cards on the table and not holding anything back. For a professional such as an actuary with a complicated technical toolkit, transparency means coming out from behind the black-box and demonstrating the willingness to explain what is going on and disclose the thought processes in full.*

*Accountability means acceptance of responsibility and responsiveness to the client’s sensitivities and concerns. It implies taking unambiguous individual responsibility through personal signature of advice (rather than hiding behind the corporate responsibility of signing in the name of a firm). True accountability also necessitates making available to the client an easy route to challenge and express concerns, for e.g. through face-to-face presentations and explanation of the advice and an easy mechanism to complain and, if appropriate, to seek redress”.*

Stressing the points again, Daykin states:

*“Professionals need to know their clients well and understand their requirements, always maintaining a strong customer needs’ focus. In the modern climate, it is essential for the professional to be open and transparent in dealing with clients and to go out of the way to carry them along in understanding the basis for advice and the rationale for it, rather than relying upon professional mystique and black-box solutions”*

In apprehension though, about what the process could lead to, Daykin further notes:

*“Indeed, there is unfortunately a risk that greater openness, transparency and accountability could further undermine trust...the way in which these concepts are often being worked out in the regulatory environment is through an ever increasing volume of rules and regulations to govern how everything is to get on and in ever greater levels of disclosure. These may end up having wholly or largely perverse effects, since they will detract from personal responsibility both of the advisor and the advised, replacing professional judgment with safe harbor compliance with regulations and rules, and caveat emptor with a culture of blame and compensation. A more effective route in the long term may be to bolster reliance on professional judgment through increased clarity of communication and openness to challenge and to independent review”.*

These are serious misgivings in one who is the government actuary, with regard to the possible shape of things to come. They are to be seen again, against the policy of “freedom with publicity” that is believed to have once directed regulatory practices in the United Kingdom and a steady growth of added prescriptions that has been taking place over the years to cause a degree of consternation in the actuarial profession.



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In dwelling at such lengths on what Sir Michael Hart and Christopher Daykin have had to say, we would urge that a dispassionate view be taken of the present standing of the actuarial profession, the appreciation within the profession itself of the need to change with the times and the direction in which this is already taking place or is proposed to be initiated, considering particularly what the president's of the Faculty and the Institute have spelled out. Sir Michael Hart has indeed spoken about the dangers of any impositions on the profession from outside and Daykin too, is outspoken on any proliferation of controls.

One other source document we draw on is the paper on "The use of Actuaries as a part of Supervisory Model: Guidance paper" (guidance paper # 7) brought out by the International Association of Insurance Supervisors in October 2003. This provides a clear delineation of the very important role of actuaries in insurance organizations and we presume again to quote fairly extensively from this paper.

The document carries a quotation from an Issues paper on the role of actuaries in insurance.

***"Regardless of regulatory traditions, the role of the actuary within the insurance companies and in the position of supervisor, is critical to the maintenance of financially sound insurance companies. Dependent on traditions within the different jurisdictions, however, the term 'actuary' in this context does not necessarily relate to membership in certain professional associations or to certain university degrees. What is essential is to ensure that the insurance undertakings possess the competence and qualifications required for this identification and control. Mathematicians and economists with insight and experience from the insurance business may play this part as well as 'actuaries' in the narrow sense of the word."***

We would interpret the reference to ***"mathematicians and economists with insight and experience"*** as meaning that, given a respective basic skills they come up with, they would need to develop an actuarial approach, understanding and judgment and insofar as they do acquire these, they could be considered to be actuaries along with those who grew up in the profession. This, we believe, is the point made in what is stated as conclusion #1 in the document ***"The application of actuarial expertise is a key component in the operation of insurers, insurance markets and insurance supervisory authorities"***

On the role of an "appointed actuary" or a "responsible actuary", as the document names the position, with ***"individual official responsibilities or a defined role set out in the insurance regulation"***, the document notes: ***"a key issue in considering the adoption of a responsible actuary model is the supervisory philosophy. The organization of this supervisor also influences the role of actuaries in insurance supervision. Other issues such as the state of the insurance market in a particular jurisdiction and the development of the actuarial profession in the jurisdiction may also influence whether the responsible actuary model is adopted"***.

***Mentioning that at one end of the regulatory spectrum are those supervisory models that utilize a responsible actuary model, the document goes on to detail the Canadian approach as an example: "The approach in Canada involves a continuously appointed, individually named person who, under the relevant legislation, is required to carry out an annual valuation of the liabilities of the insurance business."***



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*The responsible actuary must annually calculate the technical provisions and certify that they are calculated in accordance with actuarial practice generally accepted in Canada, including the use of appropriate assumptions and methods, that they make appropriate provisions for all policyholder obligations and that the consolidated financial statements fairly present the results of the valuation. The responsible actuary must also provide an annual certificate which details the amount of the required minimum solvency margin. The responsible actuary is also required to perform annual stress testing of the insurer's future financial condition.*

*Under the Canadian approach, the responsible actuary is clearly expected to act as a front-line controller of prudential financial management. The link to the insurance supervisor is through the legislative duty to 'whistle-blow', to the board and the insurance supervisors, if the management of the insurer insists on pursuing a strategy which the responsible actuary believes may have a serious adverse impact on the business.*

*Under the Canadian system, the responsibilities of the actuary are spelled out in legislation and direct requirement of the insurance supervisory authority. A detailed body of professional guidance issued and enforced by the local professional body supports these requirements. Deregulated insurance markets place additional demands on the actuarial profession leading to effective solutions along the lines of the responsible actuary system and its variants. It seems likely that solutions of this general type will become increasingly widespread throughout the world, necessitating high-levels of actuarial education and professionalism, and requiring the active support and involvement of professional associations of actuaries in each country. The role of the actuary in Canada has progressed steadily away from the historic evaluation of the liabilities, to also monitoring the adequacy of assets to meet the liabilities on a continuous basis.*

*This expanded role includes providing a forward-looking report to the boards of directors on stress and scenario testing of a firm's current and future financial condition and playing the key role in the identification of risk and its successful management. A responsible actuary acts as an additional front-line control, which makes it possible to reduce the degree of direct supervisory oversight, replacing it with a degree of oversight of the fitness and propriety of the actuary and the effectiveness of the functioning of the actuary in the required group.*

*Alternatively, at the other end of the spectrum are those systems that do not mandate the use of an actuary. As indicated above, not all jurisdictions make use of an actuary as an explicit part of the supervisory model ... while most EU countries have adopted some form of a responsible actuary model, some have a different actuarial tradition. In particular, the French and Spanish approaches emphasize the importance of direct supervisory overview.*

*There is a range of ways in which the responsible actuary can be implemented. Many jurisdictions with a responsible actuary system also make extensive use of onsite inspections in the same manner as those jurisdictions that do not have a responsible actuary system."*

*The conclusion that the document comes to (conclusion # 3) is that*



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***“The decision on the use of a responsible actuary in an official capacity as part of a supervisory model should give due regard to the need to ensure effective supervisory oversight and management accountability.”***

Corollaries follow.

***“Conclusion No.4: When a responsible actuary model is adopted, the actuary should have clearly defined tasks and responsibilities, as well as rights and obligations under the law. These tasks and responsibilities can change over time.***

***Conclusion No.5: In the event that the use of a responsible actuary in the supervisory model is not adopted, then the supervisor has to have access to sufficient resources to perform detailed and quantitative reviews as required.”***

The second and more practical issue noted is the nature of the insurance market in the jurisdiction. The number of insurers and the nature of their operations may mean that there are practical issues to overcome should a responsible actuary system be adopted. In some jurisdictions, a larger number of insurers may make it difficult to initially find sufficiently qualified and experienced actuaries to carry out the role.

The third issue finding mention, also practical in nature, is the desire of the insurance supervisor to encourage the greater use of actuaries. It is believed that the use of actuarial skills and advice can enhance the assessment of risk in an insurer, irrespective of the supervisory model used.

This supervisor may introduce an official for an actuary in order to encourage insurers to make greater use of actuarial techniques. The supervisor can do so, and enhance the role of actuaries, by requiring reports to be signed or cosigned by an actuary, and by encouraging the involvement of the actuary in meetings and dialogues between supervisors and insurers.

Another point seen is that the decision to implement a responsible actuary system can of itself have an effect on the availability of actuaries in the jurisdiction. The reinforcement of the role of the actuary through the assumption of higher responsibilities could make the profession more attractive to those who may consider joining the actuarial profession in the jurisdiction, which could itself be an objective.

As conclusion no.6, the document notes:

***“The decision to adopt an official role for actuaries should take account of the availability of suitably qualified actuaries and the extent to which the profession is well-organized.”***

There is much more in the IAIS document that we are not going over. We have sought primarily to project the role of and need for a responsible actuary or appointed actuary, as the position is better known. The regulation in India do provide for appointed actuaries for both life and non-life insurance companies. Though of course, the responsibilities are spelt out in a greater measure



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for a life office, we do envisage an increasing role for the appointed actuary in a general insurance company. This is a system which both the regulators and the profession see as necessary and the individual insurance companies are also adjusting to a position in their midst with a quasi-regulatory responsibility. We also see in the arrangement, more particularly of course in a life insurer, a coordination of role in an individual who could largely be a point for reference with and from the regulators.

We may appear to have laboured on an issue which, insofar as the UK is concerned, is perhaps a settled matter on which there could be no review. We do yet believe that in the Morris Review note could be taken of a different perception being held and continued to be held on the importance of and need for the appointed actuarial system.

We do not propose to dwell on Lord Penrose's report to which the decision to set up the Morris Review can be attributed. He has formed harsh judgments and many of his remarks are directed not only on those who had been running the Equitable Life but also the government actuaries department and the regulators. But in this, as he has himself said, it was from hindsight that he formed his conclusions, to whatever "benefit" that it led to. He did not also let his comments be qualified by reference to professional standards current at the time the events occurred.

Then again, legal advice had repeatedly available to the Equitable Life as also to the regulators and, as Lord Penrose has noted, a society's actions were being accepted or acquiesced in on the Hyman case again, apart from the advice on the basis of which the society took the initiative, some of the judicial views taken over the stages that the case went through did seem to have favoured the stand taken by the society in some measure at least, brushed aside though by Lord Penrose. These would seem to be defenses against charges of irresponsible or ill-considered decisions, the final outcome of the case notwithstanding.

Insofar as Lord Penrose draws lessons for the future, what will matter perhaps are the conclusions that the Morris Review comes to.

ASI has pleasure in submitting response to specific questions raised in the consultation document (Annexure 2) and hopes that it should be of assistance to the Morris Review.

**Liyaquat Khan**



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## Annexure I

### THE ACTUARIAL SOCIETY OF INDIA

The Actuarial Society of India (ASI) established in September 1944, is a collection of individual actuaries and actuarial students mainly working in India.

Right from the beginning and till now most of the ASI members are members of the Institute of Actuaries, London and some of the Faculty of Actuaries in Scotland.

Since 1979 the ASI is a Member of International Actuarial Association and is actively involved in its affairs.

In 1982 the ASI was registered under Registration of Literary, Scientific and Charitable Societies Act XXI of 1860 and also under Bombay Public Charitable Trust Act, 1950.

In 1985 the ASI started examinations leading to professional qualification of an actuary, till then the accreditation was based entirely on UK Institute examinations.

ASI is a legally constituted body with power to accredit members as fully qualified members at fellowship level with a designation of Fellow, Actuarial Society of India (FASI). The accreditation is by examinations, which test knowledge and understanding of actuarial science and its practice at high standards of level in consonance with the policy of International Actuarial Association.

ASI is governed by its rules, Professional Conduct Standards (PCS) and Actuarial Practice Standards called Guidance Notes (GNs), which are legally enforceable and are thus subject to scrutiny of applicable laws.

ASI has Disciplinary Tribunal in place so as to enforce high standards of professional conduct and discipline.

ASI ensures that its members particularly those having signing-off responsibilities in terms of law/regulations have competency to do so by enforcing a system of Certificate of Practice (CoP) and Continuing Professional Development (CPD) programmes.

The ASI has been involved in public policy matters of the Government as these relate to insurance, pension, social security and related matters. Specifically the ASI was formally involved in review of the Insurance Act, 1938, in 1951, in 1967 with Administrative Reforms Committee, in 1968 with a Committee to investigate expenses of LIC of India, in 1977 with Direct Tax Laws Committee, 1979 with Era Sezhiyan Committee to review the working of LIC of India and in 1993 with Malhotra Committee on reforms in Insurance sector and recently in



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November 2002 provided its input to the Law Commission on Comprehensive Resource of Insurance Laws.

### **Representative role of ASI**

**ASI does not represent any section of Commerce or Industry and it also does not represent or promotes business interest of its members. It promotes, contributes and represents the public interest, particularly in the affairs of the Country where in its members work.**

**9<sup>th</sup> Sept, 2004**



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## Annexure 2

Morris Review of the Actuarial Profession  
A Consultation Document

### Questions

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?

ASI: Actuaries by their professional qualification and control through professional requirement of ethical conduct are well equipped to perform roles that they are qualified for i.e. financial risk management, asset liability, management and management of financial services, particularly those areas where financial institutions take long term liabilities. The Actuarial qualification is unique in the sense that it is not and cannot be duplicated by any other academic discipline such as finance or accountancy.

It would be inappropriate to ascribe any weakness to any professional qualification per se. This assertion is true whether the professional discipline is actuarial, accountancy, medical or any other. The question in our view is inappropriate in much as it would be inappropriate to ask, "What are the weaknesses of medical profession?"

In current day context actuaries are surely well equipped for the roles that they qualify for and engage themselves in. However a person qualified as an actuary may fail as a CEO of a company or may be perceived to have failed in the same manner as any other person holding some other professional qualification such as accountancy.

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?

ASI: ASI is of the view that involvement of the Actuaries and then the Actuarial methodology typically called Actuarial Control Cycle used to a larger extent should stabilise the financial services industry better. Example being, few years back South East Asian crisis of the whole financial system in which borrowings (the liabilities) were short term as against the investments in infrastructure creation were long term. The seeming rigidity of Actuarial Control Cycle being applied by Actuaries professionally regulated would limit the flamboyance of political class or expediency of the bureaucracy, for greater good of the society.

ASI is of the view that the professionals in their professional roles should play and perform within the role boundaries of their respective professions. Any overlap across these role boundaries or transgression of one into the other will surely create disfunctionalities, for example actuarial role cannot be transferred into an audit function and vice versa. Similarly role of a medical doctor cannot be subject to an audit by an accountancy profession to opine whether the prescription given was right or wrong. In sum the actuaries in their role as actuaries should not leave any areas to other professions in as much as medical doctors should not leave their roles to other professionals.

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?



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ASI: Yes, the certification of long term liabilities in financial services such as banking along with certification of and advice on matching or mismatching of assets and liabilities. Similar roles are needed to be prescribed in respect of risk assessment of financing of long term infrastructure projects. Statutory role should also be prescribed for certification of liability and funding level of social security programmes. This of course is suggested in addition to the current statutory role generally in vogue in insurance and pension industry.

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

ASI: Statutory roles are prescribed to protect “public interest” . This is also true for roles such as audit functions. The effectiveness of any such role is diminished or compromised only if the role-bearer does not conduct himself/herself ethically and /or competently. Many a times avoidable frictions have arisen between role boundaries of actuaries and audit functions on account of lack of clarity of roles on either part or tendency to dominate and thus transgress of one role bearer over the other occurs.

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?

ASI: Yes, this is true for “Public service role of actuaries” as much “public service role of auditors” . Peer review is a process essential for any profession to ensure that its members perform prescribed roles within laid down professional conduct and practice standards. ASI is of the view that for “public interest” roles, the peer review process should necessarily be a pre-signing off as against post-signing off.

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

ASI: Yes, the audit functions if done well would surely enhance the value of actuarial role. For example the actuarial functions typically begin with the accuracy and completeness of the data, say in life insurance and audit needs to ensure that such data as supplied are complete and accurate. This could happen if there exists a protocol of understanding between the two professions which define the roles, role boundaries and extent and nature of dependencies.

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?

**ASI** . The question is framed contextually to happenings in the UK specific to product designing , the issue is not who designs the product and for what purpose but the real issue is who sold the product as a business proposition and how. The question therefore lies at the doorsteps of the market conduct regulator and frame-work for corporate governance; and also to some extent at the door steps of the public policy of the Govt. of the day.

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



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a broader public interest, which encompasses the strength and stability of the insurance and pension sectors and the interests of those consumers involved?

**ASI.** Actuaries in statutory/regulatory role are surely responsible to the regulator and the actuarial profession. If these two roles and respective role boundaries are managed well, it is unlikely that enterprise owners can exploit the customer unfairly.

Q1.9 How would you characterize 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?

ASI: ASI views the current situation in UK as rather unfortunate and multi-directed attack on the actuarial profession unjustified. Happenings in the Equitable cannot solely be linked to lack of effectiveness of UK actuarial profession in controlling its members conduct. ASI is of the view that conduct of CEO of equitable was not necessarily influenced by the CEO being an "Actuary". The decision by the CEO was in our view driven by uncontrolled ambition to show marketing success, irrespective of the fact whether such marketing success was socially desirable or ethically permissible. The role of the appointed actuary is in its conceptual framework, policyholder – perspective. Such a role is in state of conflict with the role of CEO and both the roles can not and should not exist within a single person. To the extent that it did exist in Equitable, was besides being unusual, is reflective of poor regulatory and public policy governance role of the Govt. of the day. It should not have been allowed to happen.

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

ASI: Yes, they should be. They should be liable to disciplinary processes of the profession as well as the regulatory mechanism of the Govt. should make them accountable. Of course this is true for any other profession.

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

ASI: No comments, as the question is very specific to UK.

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

ASI: Probably Yes.

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

ASI: Probably Yes.

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?



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ASI: ASI believes that the UK Actuarial profession has been responding reasonably well to requirements on if from time to time. We see no particular reason for any “lay input” to decision making processes which require typically professional insight.

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?

ASI: No comments as the question is very specific to UK.

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?

ASI: The Actuarial Education policy of UK from the year 2005 will be in a significantly more appropriate direction, appropriate to the future role of Actuaries.

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?

ASI: Yes.

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

ASI: Yes.

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

ASI: No critical comments.

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

ASI: No comments as the question is specific to UK .

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?

ASI: ASI believes that the question is misplaced. Professional education and accreditation stands apart from academic qualification without one undermining the other. Both need to exist.

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?



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ASI: Expanding and changing nature of financial services industry. Future issues of risk management in financial services industry will be the key driver of actuarial services.

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?

ASI: No comments as the question is very specific to U. K. .

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?

ASI: No comments as the question is very specific to U. K. .

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?

ASI: Yes otherwise takers of actuarial services would not do so and pay for the same.

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?

ASI: No Comments.

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?

ASI: No Comments

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?

ASI: ASI is of the view that the level of competition is dynamic and function of many external influences. It needs to be left to evolve as a function of time.

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?

ASI: No comments.

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

ASI: At a very high level.



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

ASI: Very easy.

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?

ASI: Yes, in particular the education point. Australia does stand apart and at greater heights. Probably the extended level of the actuarial involvement in regulatory affairs is relatively at higher level.

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

ASI: No comments.

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?

ASI: None in particular.

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

ASI: No comments.

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

ASI: No comments.

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

ASI: The regulatory models of Australia or Canada could be of help.



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

ASI: The Regulatory objective should be to facilitate growth and expansion of the actuarial profession with the objective of serving the public interest.

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?

ASI: The current system should be transformed to be more proactive for enforcing conduct standards.

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?

ASI: ASI is of the view that no profession should represent interest of its members to the outside world. A profession should educate, accredit, and regulate its members to protect public interests.

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?

ASI: Self –regulation is an essential element of governing structure of any profession.

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?

ASI: ASI is of the view that on number of counts concerns of Lord Penrose are misplaced and unfortunately got directed against UK actuarial profession unfairly. ASI also believes that proposals of FSA in so far as they relate to appointed actuary regime are misdirected and ill conceived.

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

ASI: No, as ASI believes that happening in UK as far as the appointed actuary system is concern are unfortunate.

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?

ASI: No comments, the question being very specific to UK.

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

ASI: ASI does not believe that correctness of actuarial calculation should be benchmarked to level of acceptability by non-actuaries.



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

ASI: Should the role of medical doctor be open to other professional?

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?

ASI: The regulator should judge the effectiveness of the role of the actuary as well as the role of the trustees and the auditors. No system can function unless all the professionals perform their respective roles effectively. It is the regulatory regime which should ensure effective management of role boundaries.

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?

ASI: No comments.

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?

ASI: No comments.

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?

ASI: No comments.

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?

ASI: No comments.

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

ASI: No comments, as issues are not sufficiently known to ASI.

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

ASI: No, ASI is of the view that a 'reserved' actuarial role in some areas such as liability certification is necessary.



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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?

ASI: Appointed actuary system should be introduced.

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?

ASI: No comments

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?

ASI: No comments

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

ASI: No comments

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

ASI: No comments

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?

ASI: Yes

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

ASI: None in particular

Q2.24 Are there appropriate legal and professional duties and safeguards for disclosures by actuaries to protect the public interest in regulated sectors?

ASI: None in particular

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

ASI: We believe so.

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

ASI: No comments

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?



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ASI: Yes to the first question.

No we do not agree with Lord Penrose's view. ASI is of the view that, failure to protect policy holders' interest has been on account of regulatory inadequacies.

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?

ASI: Yes, this is always true.

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

ASI: Probably all, though in clearly demarcated areas of jurisdiction.

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

ASI: Probably yes.

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?

ASI: Yes to the first question. Probably yes to the later question but to a measured extent.

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 professions standards where appropriate, and to ensure that there are no regulatory gaps or overlaps in standards?

ASI: No comments

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?

ASI: No

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

ASI: Such steps have always to be contextual and dynamic with reference to evolving situations.

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?

ASI: No, ASI does not believe that system of reviewing actuary replaces fully the concept of appointed actuary in protecting policy holders' interest.



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

ASI: ASI believes that a well thought of system of “whistle blowing” resting upon platform of appointed actuary regime is the appropriate answer.

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?

ASI: No comments

Q2.38 Do the new disciplinary processes implemented by the Profession from 1 January 2004 address the issues that Lord Penrose raised?

ASI: No comments

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?

ASI: No comments

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

ASI: Probably yes

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?

ASI: Definitely yes

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

ASI: Probably by both within clearly defined boundaries

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

ASI: Probably it has not happened in UK



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## **3** ROLES AND RESPONSIBILITIES OF THE GOVERNMENT ACTUARY'S DEPARTMENT

ASI feels inadequate to make an appropriate response to this section

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 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?

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?

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?

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?

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?

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?

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?

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

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