

Sir Derek Morris
The Morris Review
Room GC/08
1 Horse Guards Road
London
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6 October 2004

Dear Sir Derek

Morris Review of the Actuarial Profession

I have pleasure in attaching our response to the consultation paper on the actuarial profession. The response is on behalf of the Aviva group as a whole, which employs nearly 200 actuaries. In compiling this response we have taken into account, as far as possible, views from our senior actuarial teams across the group. Clearly, individual actuaries will of course have their own views on many of the questions raised in this review. We have consciously chosen not to comment on the GAD questions, as we no longer have any dealings with this organisation.

It may be useful if I draw out what we see as the main points.

- The actuarial qualification is not an end in itself but one of the tools by which an individual advances himself and benefits his client.
- The ultimate responsibility for the understanding and acceptance of any risks involved in a business must lie with the Board or Trustees. There is a danger that over reliance on reserved roles can lead to an abrogation of this responsibility.
- Actuaries are responsible to their client, their employer or in their capacity as an external consultant. This can create a conflict of interest if linked with a duty to maintain a public interest. If the profession (as distinct from individual actuaries) is to play a public interest role, it needs to establish a structure to support this with the necessary degree of independence.

We have welcomed the opportunity to provide input. We realise the importance of the issues being given full and frank debate and hope that this review will help to strengthen the role of actuaries in the UK and the rest of the world. We have no objections to our response being published on your web site.

If it is of assistance to you, I would be very willing to meet with you or members of your team to discuss further any of the issues raised in this response. Alternatively if there are any items where you would like further clarification of our viewpoint please do not hesitate to contact me.

Yours sincerely

Mike Urmston
Chief Actuary

Morris Review of the Actuarial Profession Norwich Union / Aviva Response

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?

Actuaries' main value lies in their use of mathematical/intellectual disciplines to assess the value of long term liabilities of uncertain types. This discipline gives them the ability to analyse complex long-term issues and propose relevant solutions. Actuaries tend to be weaker at reaching and communicating conclusions and stronger on the quality of analysis.

Actuaries are well equipped to handle the mathematical complexities of insurance and pension fund management. It is the responsibility of the profession to ensure the appropriateness of the technical skill levels required. Beyond this, the employers of actuaries are looking for someone who can make a substantial contribution to the running of the business which calls for a much wider set of attributes and they must look for and develop this potential. Most companies facilitate the development of these wider skills. Large companies have in house programmes and arrange external courses.

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?

There is no reason why actuaries cannot become involved in any general business area and indeed many have. The actuarial qualification is an asset and not an end in itself as to how far someone can go. However in the same way as the actuarial profession would be affronted if a non qualified person set out to do formal actuarial work, actuaries should not undertake other specialist professional work without the necessary qualification for that profession.

The profession is looking for opportunities in wider fields and we are supportive of this.

Q1.3 Do you think that there is still a need for particular roles for actuaries to be reserved by statute and, if so, which roles and for what reasons? If not, why not?

The development of life insurance and pension schemes and the actuarial profession have grown hand in hand and reserved roles have developed as part of the regulatory regime. The objective is to obtain an independent assessment of the liabilities preventing shareholders influencing the results of life offices and pension schemes. This seems a very desirable objective.

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

In reality the impact is probably not as great as the profession imagines or desires. It is not clear how non actuaries view reserved roles and whether they regard them in the same manner as the profession. Some complacency has probably arisen and we should be looking at ensuring rigorous standards are maintained.

A further concern is that the reserved role has tended to isolate Boards and Trustees from responsibility and the understanding of risks.

By way of turning the question around, the absence of a reserved role for GI actuaries in companies has probably helped GI actuaries work in "non-traditional" areas. It has also helped clarify the collective responsibility of senior members of companies to understand Balance Sheet strength and financial adequacy, for example.

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?

Generally there is a need for greater peer review and scrutiny, preferably not of the "tick box" variety. The profession should not, however, look to add review processes in conflict with FSA or company procedures. Ultimate responsibility lies with Boards and Trustees for the business and its risks.

Any peer review or scrutiny needs to bear in mind the existing review/scrutiny processes in companies. In large organisations there is often considerable review/challenge by "Group" functions, as well as by external auditors and periodic external validation of processes and assumptions.

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

Most companies operate with a close relationship between the actuarial and finance (accounting) professions and this is likely to continue in the future and we would like to see an expansion of this.

A closer working relationship is developing with the legal profession on treating customers fairly and aspects of the running of with profit funds and pension schemes.

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?

The overall responsibility has to rest with the Board of the company. To some extent we need to distinguish between a person working for a company and using his actuarial knowledge to assist in the development of a new product and an actuary providing actuarial advice to a company. However we are in danger of hiding behind semantics. In both cases the actuary is likely to be acting for his client, the company or trustees. An actuary developing new product proposals should be aware of the wider picture and how the product may be sold / used and their likely performance under different scenarios and should advise on these aspects.

In many ways the difficulties we have seen in recent years have not necessarily been about product design, but about consumer understanding of the risks involved. A much more holistic view of the whole process is required which the company accepts responsibility for.

Treating Customers Fairly should have a major influence as we go forward and actuaries could take a leading role in this area.

The profession needs to consider how it can adopt a more independent role where it can speak out on issues. Many of those providing the voice of the profession are employed within the industry and there is a serious danger of conflict of interest.

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?

Actuaries are primarily responsible to their client. It would be naïve to assume otherwise. However, once again, the actuary should be aware of the wider picture rather than just being a mathematical technician. As mentioned above the profession needs to look at how it can provide a truly independent voice.

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?

Senior actuaries who support the profession on a voluntary basis invariably have commercial considerations which might affect their independence, or perception of independence by others.

The profession may consider whether it can itself employ actuaries to provide an independent voice. However these would have to be people who had acquired considerable business knowledge and practice previously and were not conflicted by other employment concerns. If the profession employs senior actuaries as spokespeople, they may become removed from day-to-day contact with current business issues and might struggle to retain credibility within and without the profession. It will always be hard to resolve this Catch 22.

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

An actuary committing a breach of procedures can be fined. Poor advice would need assessing against professional standards which need to be more rigorously defined. To invoke a world of compensation for poor advice could mean the actuary declining to provide any.

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

The professional has fostered new research and provided a forum for open debate on public issues. However the profession has traditionally been reactive to events rather than an innovator. In a number of instances it is business which will instigate new ideas and the profession acts as a policeman to ensure nothing untoward takes place. The profession could in some cases have been more to the fore in voicing its opinions.

We may need to distinguish between the profession and key individuals within the profession who are on numerous working parties etc which can restrict the breadth of advice given. There is a perception that this is exacerbated by an overly London bias

The previously mentioned lack of independence is also a factor here.

The profession has tried to inter react with schools and education bodies but the impact appears to be negligible.

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

The profession has expanded knowledge but primarily within its own comfort zone. Other bodies have formed to take forward the development of ideas e.g. investment analysis, financial economics, risk management etc.

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

It is limited in that it is quite a small profession

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?

The Institute and Faculty should merge to create one formal UK body. This would remove duplication and facilitate the transition to more focused management and governance structures.

The profession has an abundance of committees and should consider if these could be amalgamated using a top down review of what is really required. The profession's ruling bodies are dominated by the larger companies and consultancies. It would be helpful to get a wider perspective. There is some lay involvement at present but expanding this should be viewed cautiously.

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?

Almost inevitably the large companies and consultancies recruit the most trainees and this must have some influence even if subliminal. However in the main the profession makes its own mind up and can introduce aspects into its training that the employers would not necessarily consider helpful.

Q1.16 What is your view of the appropriateness of the current actuarial qualification syllabus (set in 1999) in preparing actuaries for their actuarial and broader business and management roles?

The syllabus is useful for the technical side of the role and has reasonably kept up to date in this context. It is less useful for the broader business and management roles. The profession should not expend effort and money on trying to provide these directly but it could provide an overview and guidelines on areas it would be helpful / necessary for a trainee / new actuary to progress. A number of offices provide this in house but for smaller ones this can be a difficulty. The profession could recommend various external courses but it must be very careful about how these are selected.

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?

The average time for technical training needs to reduce. However, sufficient emphasis needs to be given to work experience. Technical actuaries alone are unlikely to be sufficiently experienced to take on influential roles in the business. We do not favour too much specialisation.

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

No, this has been slow.

CPD could be used to a greater effect to provoke/stimulate keeping up with new developments. The profession is now addressing this.

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

This is a wide ranging change rather than a refinement of the current syllabus. It will be difficult to assess the success or otherwise of the new approach for a number of years which is a risk for the profession, trainees and business,

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

The student body is heavily biased towards mathematics graduates. This is almost inevitable given the technical nature of the profession. This in itself is not a problem but the profession needs to avoid becoming too monotone. Companies play a valid role here in that they want a diversity of people and will look to recruit people with different characteristics on purpose. Pure mathematicians are often quite poor at communication.

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?

Alternate providers would encourage maintenance of high standards and different viewpoints and interpretation of core reading. There is a perception that currently it is an enforced profit making monopoly which is not healthy.

However the current material is generally considered to be of a good standard and so long as the profession maintain a monitoring role it is not perceived as a real issue. Given the small size of the profession, a single provider of actuarial education is probably the only effective option. There may be a greater role that could be played by external stakeholders in agreeing the syllabus, course content and setting standards. This may help to ensure materials are kept up to date and that training materials cover the needs of the industry.

There are concerns about the expansion of actuarial science degrees and the possibility of pass / exemption of virtually all the exams with minimal office experience.

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?

Constantly changing regulation and compliance requirements have created a sizeable demand for actuaries. It is difficult to see this abating in the near future.

Actuarial skills are valued across many different departments of a life office and by pension schemes and this is likely to continue.

Mergers and acquisitions, switch from DB to DC pension schemes and the decline of with profits business have lead to actuaries developing new skills.

The introduction of statutory roles for actuaries has no doubt contributed to the growing number of GI actuaries in Lloyd's. However this growth has also been fuelled by a "pull" from Lloyd's and Managing Agents to make greater use of actuaries. The "reconstruction" work involved in the creation of Equitas and the introduction of a formal RBC process for Lloyd's have also lead to a boom in the demand for GI actuaries in Lloyd's and the London Market.

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?

The large consultancies dominate the provision of services not provided in house. As the marketplace is not overly dominated by one provider then it is reasonably competitive.

Being a small profession is a factor in choice.

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?

Boards should review the quality of the advice they receive. The new governance arrangements will assist this process.

Pension scheme actuaries are switched reasonably frequently. However, the complexity of the issues generally involved tends to limit switching.

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?

There is usually reasonable understanding of the overall message but not necessarily of the component parts from which it is constructed or the attendant risks. Too often the profession states this is what you need to know, irrespective of whether intelligible, rather than ascertaining what you want to know. Those providing actuarial services must ensure the message is understood at a detailed level and meets the clients' requirements.

Often the profession is advising on matters of great complexity involving fundamental uncertainties. This needs to be remembered by the profession and its clients at all times. Boards and Trustees need more education of the risks involved and the importance of the underlying assumptions. Boards and Trustees need to consider the risk profile of the scheme or business and the implications of alternative assumptions sets for policyholders, members, employers and shareholders.

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?

We have seen a steady stream of companies and consultancies merging or being taken over and this is likely to continue leading to a prevalence of larger and fewer companies and consultancies. This could have an impact on the competitiveness of providers.

The number of newly qualified and students in coming years will also be a factor

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?

A key driver is the size of the firm and if it has the scope / desire to manage everything in house. For specialist skills large companies may also go to specialists. The perceived future of the company will be a significant factor in whether it has issues with recruitment though the most pertinent factor may well be the physical location of the office.

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?

It is a small profession which has an impact on competition. More independent challenge of conventional approaches would be healthy.

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?

No. Minimal

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

UK actuaries' skills and experience are highly regarded internationally and have been an example to other countries in the past.

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

The opportunities are there if an individual wishes to broaden his horizons and the qualification enables him to do it. Aviva employs many life actuaries in different countries around the world and encourages transfers whenever it can. There is an opportunity to build a truly international profession, given the many similarities between countries.

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?

It would be useful to consider the regulatory structure of these countries and how this has impacted on the development of the profession.

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

UK often has the most developed approach but other countries can lead in specific practice areas.

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?

The profession should be willing to learn from these examples of good practice where they are successful.

Whilst there are undoubtedly lessons that can be learnt from the accountancy profession, the relative size of the two professions may preclude some of those lessons being directly applicable to actuaries.

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

Wide range of directives, international accounting standards and regulatory changes both at present and anticipated.

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

We consider aspects on clarity around clients and conflicts of interest could be of use.

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

No view

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

To set standards for professional behaviour and best practice. To monitor and enforce these standards.

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?

The current standards and disciplines are too weak and inconsistent. We believe too much emphasis is placed on reserved roles as it diminishes what should be a responsibility of Boards and Trustees.

As noted in 1.4, the absence of a reserved role for GI actuaries in companies has probably helped reinforce the collective responsibility of senior members of companies to understand financial strength, and been a positive benefit.

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?

We believe it does and there needs to be an assessment of how these roles can be separated

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?

There is some danger of an overreaction to Equitable Life and overstatement of the powers of an actuary. In practice the power of the actuary has not proved to be strong enough to check the actions of Boards, employers and Trustees in many cases. The professional body should have responsibility for standards, methods and compliance.

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?

There is always going to be an issue in that actuaries are employed and the employers' aims will have some influence on their advice. This is true whether the roles are taken by in house actuaries or external consultants.

Conflicts of interest can arise within Boards as well as between the Board and the actuary. The actuary needs to have the strength and the authority to handle these conflicts.

The introduction of the Actuarial Function and the With Profits Actuary may lead to some loss of influence. There is some confusion over the exact responsibilities that lie behind these different roles.

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

The regulators have weakened the position of actuaries within life offices by bringing in a mass of detailed regulation often written by those with little understanding of the industry. The new system is likely to be far more costly and restrictive on competition within the industry.

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?

No. The demands on directors, exec and non exec are onerous and it will be difficult to increase their understanding of the intricate details involved. Indeed, it is not the role of a non-executive to be an actuarial expert.

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

The introduction of realistic reporting replaces one set of complex calculations with another set of probably even more complicated calculations involving techniques and models that are at the leading edge of the practical application of modern finance theory. These changes are appropriate and are welcomed and will make actuarial calculations a little more accessible to finance experts. The complexity of the rules and calculations means that it is unlikely that the calculations will be more accessible for the majority of non-actuaries.

However the increasing focus on risk and risk management may help to ensure an effective communication of the key issues to non actuaries.

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

We are of the opinion that it should be filled by a professional, with recognised professional qualifications. In theory professions other than the actuarial one could meet this criterion such as accountants, economists and investment advisers. The key point is that scheme members need protection and the Scheme Actuary appointment ensures that a competent professional carries out the role.

We have some sympathy with the view that, in principle, someone with an understanding on how the calculations are carried out, an ability to do and explain them as well as an understanding of financial and demographic experience and expectations could fulfil the role. However in practice we feel that the actuarial profession is the only one whose qualification process currently develops a sufficiently wide range of skills to carry out this role.

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?

We believe that some Trustees cannot be expected to be experts in the setting of assumptions and valuation methodologies and that is partly why they seek advice.

However, the suggestion from the question is that the process is a passive one for the Trustees who blindly accept the recommendations of the Scheme Actuary, whether or not the Scheme Actuary is acting in their interests which we do not think is normally the case.

In our view the current Pensions Bill will require Trustees to have a much greater understanding of both their pension schemes as well as actuarial principles.

The distribution of benefits is not determined by the Scheme Actuary but by the employer and Trustees, possibly with the advice of the Scheme Actuary. Also the Scheme Actuary does not influence pension scheme investment performance or the actual cost of pensions.

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?

Peer review principle is a good thing. The actuarial profession is introducing a peer review and audit system. However it will only really affect the smaller schemes and those schemes advised by smaller firms. The larger firms already have a peer review and audit system in place and it is not likely that the actuarial professions proposed system would impact these firms.

We are of the view that the problems associated with external peer review procedures such as extra costs and timeliness of reports as well as competitive pressures mean that the introduction of a formal peer review process across the profession is not easy.

Increased focus on the role of pension scheme auditor could help.

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?

In our opinion the Scheme Actuary should be (and is) accountable to their client (the Trustees), their profession (and through this the public interest) and the Pensions Regulator (through their statutory role). The Scheme Actuary should be mindful of the effect of their actions on the scheme sponsoring employer and their own employer.

The Scheme Actuary would be expected to make it clear to the Trustees when any potential conflict of interest occurs. The actuarial profession should give examples/lists of where conflicts of interest can occur. It would be up to the sponsor to decide whether they wished to receive separate advice.

In our experience it is not the case that employers and Trustees are always in opposition, and where Trustees and employers are working together, having the same adviser might even help. We think that the necessity to split the roles of adviser to Trustees and scheme sponsor in all circumstances may be counter-productive, in particular for smaller employers, in terms of additional costs and potentially poorer understanding.

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?

Whilst actuarial advice will have contributed to the way occupational schemes are funded, in recent years changes introduced by government regulations, such as the introduction and amendment of the Minimum Funding Requirement, the removal of ACT and other legislative changes will have had a greater bearing. The changes planned under the current Pensions Bill will also have an effect.

The revised auditing requirements coming from the accountancy bodies are also having an impact.

The Pensions Bill will place an onus on the Trustees and plan sponsors to jointly agree a Statement of Funding Principles. It is expected that in future funding will be more of a joint agreement between plan sponsors and Trustees after taking into account views of the actuary and the investment consultants.

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?

In our view there should be a greater onus and more accountability for plan sponsors and Trustees to ensure that adequate and timely information about any matters that might affect scheme design, funding and security is given to the actuary.

We also believe that we need a positive and co-operative relationship with the new Regulator.

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

We welcome the move to a more realistic reporting regime for establishing capital within general insurance companies. This will allow the benefits of scale and diversification to be more accurately reflected in a company's capital requirements. GI actuaries have been pivotal in developing the understanding of capital requirements in most general insurance companies.

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

Yes

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?

Most general insurance actuaries have a wide range of responsibilities in their organisations, reflecting the lack of any reserved / specific role. Their work may include reserving, pricing, underwriting, purchasing reinsurance, negotiating commercial contracts or more general management responsibilities. Any attempt to codify or regulate their roles and responsibilities would need to reflect the wide range of activities in which they are typically engaged.

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?

There is a possibility of conflict of interest between actuaries advising on both pension schemes and investment matters to pension Trustees.

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?

Seems an unnecessary complication as very few actuaries involved.

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

There is some concern that practising certificates are not as effective as they could be. Regulator approval is in practice the key issue for companies.

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

Yes though it can be difficult for actuaries within a large firm to be able to get to external events.

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?

All actuaries should be encouraged to complete appropriate CPD, enhance their professionalism and take greater responsibility for their own advice. We can see there is possibly some merit in widening the practising certificate roles as this would emphasise the need to do this for a number of actuaries, but we do have concerns about the burden and cost this would place on the profession and business in implementing it. We would also seek clarity on what the overall purpose of these additional practising certificates was.

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

More formal requirement on all actuaries to maintain technical knowledge.

Again there is a need to consider the requirements of those not based in the South East.

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

Not really. Actuaries have primary duty to their client and would find it difficult to disclose in the public interest against the interests of their client, although clearly need to comply with regulation.

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

For life offices, there needs to be a more focused vision on what falls in this category. The current rules appear to have been drawn very widely.

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

As this concept is poorly defined then this is not disclosed.

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?

In many areas they would benefit from more precision.

In general we agree with Lord Penrose's view

Q2.28 Does the technical guidance need to be updated more regularly and are fast-track processes required to provide guidance on urgent issues?

Yes. The profession has a fast track process for issuing guidance on urgent issues and this appears to work effectively.

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

The profession should issue professional guidance but where possible this should be in accordance with a framework set by or agreed with government or regulators. There may be a case for a greater involvement of lay members and external stakeholder groups in the review of professional guidance in order to ensure the guidance is relevant and up to date and consistent with best practice approaches in other professions.

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

Yes but different commercial circumstances should be recognised.
The onus should be on standards which need to be maintained unless departure from these standards can be justified.

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?

Proposals at too early a stage to comment.

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?

We consider more can be done in conjunction with accountants.

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?

It must be realised that Equitable was not typical of the industry as a whole. Many members are acting with full openness and transparency as are their employers.

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

This falls into ensuring actuaries develop a wide range of skills in addition to the actuarial qualification

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?

Yes although the different roles are not all clearly defined in terms of consumer interest.

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

Opinions are generally for the client, it being the responsibility of the Board and Trustees to communicate with the client.

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?

Yes, it is always worth widening the scope of activities that are subject to peer review or other forms of scrutiny. However any such review/scrutiny must be constructed to demonstrably add value to the clients and employers who would ultimately pay for it. It should also reflect and complement any review/scrutiny that already exists.

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

Too early to say, but appear to do so.

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?

It could be indicative of weak standards

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

No

Q2.41 In the accountancy profession the joint monitoring unit verifies whether firms are complying with audit standards. Given Lord Penrose's criticisms and the long-term nature of actuarial advice, is there a need to move away from reactive complaint-driven disciplinary procedures to a more proactive regime of monitoring of compliance with professional actuarial standards? If so, who should have responsibility for overseeing the monitoring and disciplinary proceedings and who should bear the associated costs?

Actuarial Standards Board should take on this responsibility. Costs will probably need to be borne by recipients of this advice and those who fail to maintain professional standards.

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

Both

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

Yes but more experienced actuaries are required.

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?

Aviva/Norwich Union does not currently have a business relationship with GAD. We note that GAD provides a highly specialised service and believe that issues raised in section 3 are most appropriately addressed by those with a close working relationship with GAD.

We note that the role of GAD in relation to the prudential regulation of life insurance business has changed significantly since the introduction of the FSA.

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?