



## **ABI RESPONSE: MORRIS REVIEW INTERIM ASSESSMENT**

### **1. Introduction**

- 1.1 The ABI welcomes the publication of an Interim Assessment by the Morris Review. This gives the opportunity for solutions to be developed in stages which should provide a more robust outcome than a single stage approach.
- 1.2 Our response to the interim assessment, like our input during the first stage of the review process, concentrates on aspects of particular concern to insurance companies:
- 1.3 Our main concern lies with the production of actuarial standards. Here our clear preference is for an Actuarial Standards Board, similar to the Accounting Standards Board, with the Financial Reporting Council having oversight of both. The frequent interaction between accounting and actuarial issues supports such an approach, seen for example, in accounting for with-profits life business and pension liabilities. In such cases coordination and consistency are important and such a structure should maximise this.
- 1.4 Our comments are set out below in the order of the chapters of the Interim Assessment. Other key issues are support for the revised audit approach with a reviewing actuary but no mandatory peer review and support for the report of the with-profits actuary being included in short form in normal reporting to policyholders with no requirement for separate communication.

### **2. Chapter 3: The Profession and Regulation**

- 2.1 The Assessment discusses three alternatives: self regulation, independent oversight and statutory regulation.
- 2.2 Our preference is for independent oversight on the lines applying to the accounting profession. Under this standard setting, monitoring, disciplinary and other regulatory functions would fall under the oversight of the Financial Reporting Council (FRC). This would have a number of advantages compared with the other options:
  - The FRC oversight would ensure that the wider public interest is seen to be represented with an effective voice compared to continued self regulation
  - The FRC has a track record in related areas of financial reporting and can offer authoritative independence in a way unlikely to be achieved through recruitment to an oversight body limited to the actuarial profession

- Statutory regulation would be likely to replicate the FRC approach without the synergies possible through coordination with wider financial reporting issues. There would also be the risks of lack of responsiveness etc identified in the Interim Assessment paragraph 3.58 and potentially greater costs
- There is a need for the profession to have an independent voice vis-à-vis the FSA and OPRA: this favours a non-statutory solution
- The FRC is already experienced in dealing with related issues, often involving actuarial questions such as pension liability valuations
- The FRC offers the prospect of a more “joined up” approach to areas where accounting and actuarial matters overlap:
- The existing FRC structure is likely to offer the most cost effective approach which is important with the necessarily limited resources arising from the small size of the actuarial profession

2.3 The case for the actuarial profession to be within the oversight of the FRC can be seen through the five main work streams flowing from the FRC objectives as set out in its Regulatory Strategy of December 2004:

1. Promoting high quality corporate reporting: the application of this principle to the insurance industry and pension funds suggests a strong case for a single body to handle actuarial and accounting matters
2. Promoting high quality auditing: the requirement for the auditor of a life company to obtain a report from a reviewing actuary argues for both professions to be within the same FRC framework
3. Promoting high standards of corporate governance: many issues overlap the two professions: for instance, life insurance and pension fund valuations. Issues relating to pension fund liabilities are likely to be one of the more complex issues for corporate governance in the short to medium and even longer term
4. Promoting the integrity, competence and transparency of the accountancy profession: such an objective applies also to the actuarial profession and at a practical level it would appear appropriate to have a coordinated and consistent approach to disciplinary matters particularly as cases may involve individuals from both professions
5. Promoting effectiveness as a unified, independent regulator: this objective in the wider context of corporate reporting and governance appears difficult to achieve without covering the actuarial profession. We would also see actuaries being able to add value to FRC deliberations

### **3. Chapter 5: Public Interest and Accountability**

- 3.1 We consider that the rules for the with-profits actuary should remain as currently required by the FSA rules which were the subject of detailed consultation with the industry.
- 3.2 In particular we believe that the with-profits actuary needs to remain responsible to the board and agree with the view in paragraph 5.83 that a requirement for an external appointment could have adverse cost implications and be impractical given the need for the office holder to be close to the business.
- 3.3 We consider that the full with-profit actuary report should normally be made available only to the Board and the FSA for the reason identified in paragraph 5.85 that full publication might constrain discussion in it. The report to policyholders should be part of the normal reporting by the insurer to policyholders and should not be required to be a separate document.
- 3.4 We see the difference in whistle blowing requirements between auditors and actuarial function holders as arising from the nature of their different responsibilities. Any changes to the rules should align reviewing actuaries and auditors on the one hand and the actuarial function and other officers of a company on the other. In particular it is the responsibility of the officers to ensure that the company is solvent and the role of the auditor is concerned with the reporting by the company.

### **4. Chapter 7: Standard-Setting**

- 4.1 The comments here focus on the process which is very important for the life insurance industry.
- 4.2 We agree with the thinking in paragraphs 7.51 and 7.52 that a broad conceptual framework should be a priority for actuarial standard setting. This should be seen as a key move towards greater transparency which in practice means increased accessibility for the financially aware reader.
- 4.3 Our preference is strongly for actuarial standard setting to be brought within the oversight of the FRC for the reasons given under Chapter 3 above. We regard closer working between the accounting and actuarial professions in the production of standards as a desirable outcome here.
- 4.4 Our approach is firmly that the wider public interest needs to be represented in the production of actuarial standards. This together with the other arguments we have raised supports our view that FRC oversight is the appropriate framework.

4.5 There is the question of resources and the Interim Assessment at paragraph 7.73 alludes to the potential costliness of an separate framework. As insurance companies are likely indirectly to bear a significant proportion of any additional costs if an independent route is followed—either through the effect of increased subscriptions on actuarial employment costs or through increased costs for consultants—the ABI is concerned that any solution should be cost effective. With the synergies which we see in bringing accounting and actuarial matters together, this supports our arguments for an FRC framework.

## **5. Chapter 8: Scrutiny and Discipline**

5.1 Our approach here is that of our response to the first consultation:

- The correct framework is for the Board to have full responsibility for the actuarial function. Whether an external peer review is necessary to achieve this is a question for the Board. To require it could be seen as breaching the principle of the primacy of board responsibility.
- Similarly the governance arrangements for with-profits business are the responsibility of the Board and any arrangements for peer review of the with-profits actuary is a matter in the first place for them. In any event where a with-profits committee has actuarial membership, this should be capable of adequate oversight and no further peer review is needed.
- Actuarial material in public reporting should be subject to audit and we consider that the new FSA arrangements achieve this.

5.2 On this basis we favour Option 1—reviewing actuary as specified by the FSA with no mandatory peer review—as identified in paragraph 8.42.

5.3 As regards actuaries in general insurance we consider that the introduction of a reserved role is something that should be the question of specific consultation and also that the view expressed on general insurance reserves by auditors should remain their responsibility. Clearly in appropriate cases it is open to auditors to obtain appropriate actuarial advice.

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