

10th September 2004

Sir Derek Morris
The Morris Review
Room GC/08
HM Treasury
1 Horse Guards Road
London SW1A 2HQ.

BARCLAYS

Dear Sir Derek,

Ray Greenshields, Managing Director of Barclays Wealth Solutions, to whom you wrote inviting a response, has asked me to reply on behalf of Barclays PLC.

Barclays is a significant employer of actuaries in its investment business, its life assurance companies and its pension fund. Other actuaries are employed within the business for tasks which do not require their actuarial training. Some actuaries are direct employees while others are members of actuarial consultancy firms. Clearly only a few of these actually carry out a role restricted to an actuary.

Our overall view is that the division of responsibility where there is a particular area of certification required by an actuary, although complex, is generally well understood. In our view, confusion arises when the public demands an independent view from the actuarial profession, yet those same individuals work in a commercial environment. It is difficult for an individual to exercise independent criticism in the professional environment at the same time as being active on those same issues in the commercial environment. However, only those involved in the commercial environment on a daily basis will have the necessary knowledge of the issues required to express professional criticism.

Increasingly, those running the actuarial profession are employed by consultancy firms. This only serves to add a further degree of conflict of interest. However, such a hotch potch is not unique to the actuarial profession and it imposes a burden on it to demonstrate its effectiveness and impartiality. This has not done adequately and has created much of the criticism at a time of industry tension.

Should you have any further questions to ask of us please do not hesitate to contact me or our UK Director of Public Affairs, **Andrew MacThomas (020 7699 2964)**.

Yours sincerely,

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Response by Barclays PLC to the Morris Inquiry Questions

CHAPTER 1 - THE ROLE OF ACTUARIES, THE PROFESSION AND THE ACTUARIAL SERVICES MARKET

The scope of the actuarial role

- Q1.1 What do you see as the main value provided by actuaries and, conversely, what are their weaknesses? In general, are actuaries properly equipped for the roles that they perform?**

Barclays PLC has a significant number of actuaries fulfilling a wide range of remits across the Barclays Group organisations. Actuaries may either be directly employed or through consultant contracts. Actuaries bring a specific mathematical outlook, which by its nature and difference to that of other professionals is significant and valuable. In addition they contribute specialised knowledge in respect of investments, pensions and life assurance.

- 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?**

Actuaries are just one of the professional skills we employ. It is for them to demonstrate the added value they bring to any task in addition to the skills already utilised.

- 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?**

As long as there are legal or regulatory requirements for specific specialist reports and certification, it is appropriate for particular roles to be reserved for actuaries as for other specialists e.g. auditors. It is important that any form of certification genuinely adds value either to the organisation or the public at large and that specialists be properly and appropriately geared to the task.

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

None.

- 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?**

Where the role is part of Barclays PLC e.g. the actuary to a life company, Barclays ensures that the individual is both professional and capable, as it would for any other significant responsibility. Equally where it purchases services from an external firm e.g. the actuarial services to the staff pension fund, Barclays ensures it purchases those services from a firm capable, responsible and with adequate liability cover.

Peer review sets minimum industry standards and to that extent has no effect on Barclays. However, using peer review to set minimum standards ensures that, overall, minimum standards are met and prevents industry accruing disrepute. To that extent Barclays benefits from review and scrutiny. It is clear that, for whatever reason, some in the industry have not met acceptable minimum standards in the past and, in doing so, have damaged the healthy companies. If greater scrutiny can be engineered to prevent malpractice and raise the base line at reasonable cost then it should be encouraged.

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

No comment.

Accountability of actuaries

Q1.7 To what extent should actuaries accept some responsibility for their role in designing financial services products that have subsequently turned out not to be “fit for purpose” for consumers? Why were these issues not brought to light by the profession earlier and therefore perpetuated to the detriment of consumers? What lessons can be drawn from these experiences for the future?

Products are the responsibility of companies and their directors and should remain so. In the recent product failures it is not clear why the actuarial profession has been singled out as remiss in not drawing public attention to inadequacies. Other involved professions should have been no less aware.

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?

As stated above companies should be responsible for their products and services and for the staff that help produce and design them, as well as for the external services they purchase.

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?

The question seems to confuse the responsibilities of individual actuaries and the responsibility of the profession.

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

Actuaries are responsible, as are others.

The Profession

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

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

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

No comment on this section.

Entry into the Profession

- Q1.15 How important an influence on the Profession are the companies that recruit and train student actuaries? To what extent is the curriculum shaped by the needs of employers? Is this good or bad?
- 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?
- 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?
- Q1.18 Has actuarial education and training kept up with developments, particularly in the financial markets and in financial economics?
- Q1.19 Do you have any comments about the proposed new qualification syllabus that will come into effect in April 2005?
- Q1.20 Is there sufficient diversity in the composition of the student body and are there enough links with other professions' qualifications?
- 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?

No comment on this section

The market for actuarial services

- Q1.22 What have been the main drivers of demand for actuarial services over the last ten years? How do you see the demand for actuarial services evolving in the future?

Barclays: No comment.

- 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?

There is a wide choice given the relative size of the profession.

- 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?

We have no difficulties in this regard.

- 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?

No comment.

- 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?

No comment.

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?

The use of internal or external actuaries is driven by normal commercial issues – risk management, volume, recurrence, speciality etc.

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?

Barclays does not feel that the market in actuarial services is constrained.

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?

We have no relationship with the GAD.

International comparisons

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

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

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?

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

No comment on this section.

Other professions

Q1.34 Do you agree that the review can learn lessons from recent developments in the UK accountancy profession, for example, in areas such as standard-setting or in the establishment of a single unified and independent regulator – the Financial Reporting Council?

Yes. The profession has a lot to learn.

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

No comment.

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

No comment.

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

No comment.

CHAPTER 2 - THE CURRENT REGULATORY FRAMEWORK OF THE ACTUARIAL PROFESSION

The regulatory role of the Profession

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

To set minimum best-practice standards, provide the expectation of standards of good practice and to ensure that the profession provides a service that is in 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?

The self-regulatory approach has left a lack of clarity about the responsibility of the profession. The result has been that at times the profession has been introspective and retrospective, dwelling on the issues of the past rather than open-eyed and open-minded to the issues emerging.

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 that the conflict is desirable as it provokes the profession to demonstrate beyond all doubt to its members and to the public that it is managing that conflict.

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?

See Q1.3 above.

Scope of actuaries' statutory or reserved roles

The role of the Appointed Actuary

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?

To the extent that they re-emphasise the directors' responsibilities and their dependence on high quality professional advice, we applaud the changes. However we are less clear that they encourage the appropriate balance of pro-active actuarial advice to the Board. The case for the benefits of rigid audit supervision is yet to be proven.

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

No comment.

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?

We believe it is for Boards to ensure that their non-executive directors have that level of expertise to perform their role. However, there is certainly room for argument that the responsibility now placed on non-executive directors may be too great.

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

No comment.

The role of the Scheme Actuary

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

See Q1.3. In this case we believe yes, the Scheme Actuary's role should be reserved exclusively for actuaries

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?

It is the responsibility of scheme trustees to ensure that they do have the experience. Given the diversity of the pension scheme market and the small size of many such schemes, we suspect that in the past trustees did not have the experience necessary.

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?

No comment.

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?

Any arrangement has to recognise that most employees belong to very small schemes and therefore the outcome has to be proportionate.

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?

No comment.

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?

No comment

General insurance and the role of the Syndicate Actuary

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

No comment

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

We believe that it is appropriate for general insurance reserving to involve the specific advice of an actuary.

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?

No comment

Investment

Q2.18 Are there any specific issues faced by actuaries working in institutional investment that you would like to draw to the attention of the review team?

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?

No comment on this section.

Maintenance of professional competence

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

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

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?

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

No comment on this section

Whistle-blowing

- Q2.24 Are there appropriate legal and professional duties and safeguards for disclosures by actuaries to protect the public interest in regulated sectors?
- Q2.25 Is it sufficiently clear to actuaries and others when they should report concerns to the regulators and the Profession?
- Q.2.26 Is there an appropriate level of disclosures by actuaries to protect the public interest?

No comment on this section.

Standard-setting

- Q2.27 Does the Profession's technical guidance, as set out in the Manual of Actuarial Practice, provide unambiguous, up-to-date and clear standards for practising actuaries and other professionals e.g. auditors, who work with them? Do you agree with Lord Penrose's view that professional guidance in the past has not protected policyholders' interests?
- 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?
- Q2.29 Who should provide the guidance: the Profession, the regulators or the government?
- Q2.30 Is there a need to reduce the level of discretion permitted within the guidance to come to some generally acceptable professional practices?
- 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?
- 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?

No comment on this section.

Openness, peer review and audit of actuarial work

- Q2.33 Do you agree with Lord Penrose's assessment of the lack of openness and transparency of the profession to non-actuaries, including other professionals, and their clients?
- Q2.34 What steps can be taken to improve communications between the actuarial profession and their clients or other professionals?
- 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?
- Q2.36 When should actuarial opinions be directly addressed or otherwise communicated to members of the public, such as policyholders or scheme members?
- Q2.37 Is there a need to further widen the scope of actuarial activities that are subject to peer review or other forms of scrutiny – for example into Lloyd's syndicates and general insurance?

No comment on this section.

Monitoring, complaints and disciplinary schemes

- Q2.38 Do the new disciplinary processes implemented by the Profession from 1 January 2004 address the issues that Lord Penrose raised?
- 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?
- Q2.40 Should the review consider whether a fully independent disciplinary process is needed?
- 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?
- Q2.42 Should discipline be undertaken by the Profession or by regulators?
- Q2.43 Do regulators make appropriate use of actuarial expertise to supervise the work of actuaries?

No comment on this section.

CHAPTER 3 - ROLES AND RESPONSIBILITIES OF THE GOVERNMENT

ACTUARY'S DEPARTMENT

- Q3.1 What is your relationship with the GAD? Have you used, or do you currently use the GAD's services? If you are a client of 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?

Barclays is not a client of GAD.

- 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?

We have no experience of working directly with GAD.

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

Given the public interest role and the need to speak freely and without financial fetter, we think it inappropriate for this role to be performed by an independent commercial firm.

- 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?

None of which we are aware.

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?

All remain valid although it is not necessarily the case that all are necessarily reasons for an independent GAD.

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?

Given our comment in 3.3 above, yes, we believe that there should continue to be an independent GAD. However, it is clear that not all functions of the GAD need to be carried out by a commercial firm.

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?

No comment

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

No comment.

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