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Dear Sirs,

It has always been an essential part of his training that before attempting to make any calculations or write any report, an actuary should assemble, analyse and verify the facts upon which his calculations and/or his report are to be based. I would, therefore, like to draw your attention to the following.

Misleading statements

1.11 states that *"there are two important senses in which the scope of the role of actuaries has broadened: firstly actuarial advice is now provided not just in relation to liabilities but also in relation to the assets side of the balance sheet..."*

The word *"broadened"* implies that this is something new. Nonsense!

The profession started teaching and examining in the subject of investment more than 100 years ago. Indeed, for more than fifty years the profession was the only one (including stock broking) which examined in the subject.

The first actuarial paper on the assets of a company, which I have come across, dates back to before the first world war.

When I trained with the Prudential more than fifty years ago, the joint investment managers were both actuaries. At that time actuaries were involved in the investment departments of most, if not all, of the other life offices. Indeed one, Lewis Whyte, wrote the standard text-book on how to invest the assets of life offices, pension funds and other institutions in 1949. This replaced an earlier text-book written in 1928, if my memory serves me correctly.

Actuaries were employed by stockbrokers before the second world war and, by the early sixties, there were at least fifteen stock broking firms (including almost all the larger

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ones) employing actuaries.

The same statement goes on to say "*and, secondly, actuaries can now be found working in almost all areas of the financial sector and, increasingly, in the non-financial sector. This diversification away from the traditional liability-orientated work of the insurance or pensions industry actuary...*".

Although many of them might have trained and even worked for a time in the traditional field, more than forty years ago an actuarial dining club to which I belonged counted among its regular diners two members who worked on timetabling for nationalised transport companies, the company secretary of the board of another nationalised industry, the finance director of a discount house, a director of a tobacco company, the leading expert on trust law (he qualified as a barrister after retirement from a life office), several members active in the nascent computing industry and at least twenty stockbrokers. I had, as a consulting actuary, by that time already advised a shipping company on the financing of a large cargo vessel.

There is nothing new about actuaries diversifying *away from the traditional liability-orientated work of the insurance or pensions industry actuary...*".

So much for history. But if you are going to lay out the background it might as well be accurate.

1.16 Mr. Merrick is obviously another who has little knowledge of fairly recent history. I have no particular axe to grind over pensions mis-selling, since I was not involved at the time. I do, however, distinctly remember a number of pension consultants advising their clients and their clients' employees against transferring out of what, at the time, seemed safe defined-benefit schemes. Indeed, at one meeting of the West London Branch of the NAPF, at a time when personal pensions were just coming into fashion, every single actuary present (except the speaker who represented a personal pensions provider) warned against transferring out of a company scheme and into a personal pension scheme. I can recollect offering the same advice to the employees of at least two companies whose pension funds I was investing.

Mr. Merrick seems to misunderstand the nature of personal pensions. They were a good product for those who had no access to any other form of pension (and, as it now appears, for some of those, such as TI deferred pensioners, who did). Personal pensions were mis-sold but, so far as I know, not a single case of mis-selling has since been attributed to an actuary. IFAs, accountants and lawyers – yes, but actuaries - no.

Mr. Merrick's criticism reminds me of the company which produced microwave ovens and was sued because it did not warn the retail purchasers that the product was not suitable for drying the family poodle.

If the product is a safe product is the designer at fault because the product can be misused?

The Questions

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It is more than forty years since I worked in a life office or as a pensions consultant and it would, therefore, be presumptuous for me to attempt to answer those questions which will be answered with more authority by my professional colleagues. I would, however, like to suggest answers to four sets of questions, since these are all answers which I had been advocating for twenty or more years before the questions appeared in the Consultation Document.

1.5, 1.27 and 2.35 All life offices should be obliged to have their actuarial valuations audited by external independent actuaries (consultants). Peer review for life office actuaries should be carried out by external actuaries. No company is permitted to rely on its in-house accountants to audit its accounts. Why should a life office be permitted to rely on its in-house actuaries?

1.17 Would we expect a neurosurgeon to be qualified in only five or six years? The average length of time to qualify as an actuary can only be reduced

- by lowering standards, which is not desirable,
- by further reducing the diversity of knowledge required (it has already been substantially reduced over the last twenty years) which is not desirable, or
- by reverting to a regime which, also, offers non-graduate intake. This would not necessarily reduce the average length of time to qualify but it would, at least, spare the entrant the additional three years of undergraduate study, much of which, even in the actuarial departments of universities, seems to be unnecessary.

1.18 It is possible that the profession has gone too far in keeping up with developments in financial economics. Many of the problems facing an actuary require long-term solutions, most stretching over periods of twenty-five years or more. The models produced through financial economics, because of the approximations necessitated in their derivation, are not sufficiently robust to have any credence over such long periods. There is a danger that younger actuaries coming through the system will not understand the flaws inherent in such models and will apply them inappropriately.

For example, it is generally accepted that under FRS 17 (a market-based model, as are those of financial economics) there is currently a substantial deficiency in the totality of defined-benefit pension scheme assets. Leaving aside increased mortality risk, we are informed that equity markets will have to rise by between 20% and 40% before this deficit is eliminated. Those using financial economic models report an even larger total deficiency. But, under both these types of model, the deficiency could disappear even if equity markets remain at their present levels so long as inflationary worries forced an increase of as little as 2% in the yields on long-dated gilts and corporate bonds. If the investments of defined-benefit schemes are now switched, at the behest of those using financial economic models rather than traditional actuarial models, out of equities into bonds any such rise in long-term yields, or indeed in the level of equity markets, would leave the total deficiency unaltered.

Are either of these events likely to happen over the next twenty-five, forty or fifty years?

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1.21 Yes. It is of great concern. When the single provider was the profession itself there was always a cross-fertilization between numerous fellows of varying seniority within the different disciplines which constitute actuarial training as to what was taught in the courses and how they were taught. Of necessity this has disappeared with the introduction of a single (commercial) provider.

Finally, as you may have observed, we actuaries are not often lucent communicators. I hope that my remarks are understandable, even if the grammar is unsure and the content turgid.

Yours sincerely,

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