

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

Dear Sir Derek

Review of the Actuarial Profession

I am writing on behalf of Standard Life to make a number of points in response to your Consultation Document. We are grateful for the opportunity to contribute to this important review, and are happy for the contents of this letter to be disclosed.

The Standard Life Group of companies employs around 12,000 people worldwide. It offers a range of products, from life assurance and pensions to health insurance, investments and banking. Currently over 5 million customers rely on us for their financial needs, and we operate in the UK, Canada, Ireland, Germany, Austria, Spain, India, Hong Kong and mainland China.

Actuarial knowledge and expertise are vital to firms carrying out long-term financial business. Actuaries are central to Standard Life, and are not thought of as narrow specialists within the company. Rather, their expertise in financial risk management is seen as equipping them well to contribute to the complex and diverse business of running a life assurance company. We currently employ around 120 qualified actuaries who are members of the UK profession, and around 50 actuarial students.

Because their skills have equipped many actuaries for positions at the highest levels of management in firms such as ours, we believe that it is important to distinguish between an actuary who is providing actuarial advice and a senior executive who happens to be an actuary. If that distinction is not recognised the demands that are made of actuaries can become unreasonable. The actuarial profession expects probity of its members and sets standards for their professional conduct and competence *as actuaries*. But beyond these it can hardly take credit or be charged with responsibility for the wider actions of its members.

The other points that we make are in answer to particular questions that are asked in the Consultation Document, or have been prompted by the headings under which they appear, as set out in the enclosed note.

2.

Yours sincerely

John Hylands
Group Finance Director

Review of the Actuarial Profession

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

The scope of the actuarial role

Q1.1

Risk analysis, financial mathematics and modelling are vital to the successful and secure operation of long-term financial business. Actuaries have expertise in these and their services are therefore indispensable to companies such as Standard Life.

Furthermore, the application of their skills within a professional regime provides confidence in the standard and integrity of the work of actuaries. However, individual actuaries within firms should not be regarded as having a responsibility to champion the interests of the consumer.

Q1.2

Some of the roles within firms carrying out long-term financial business demand the particular skills of actuaries. Many actuaries with appropriate experience and further training successfully fill other roles that call for wider, and in some cases additional professional, skills. Their actuarial training and expertise are in most cases valuable assets in these wider roles.

Q1.3

There is clearly a need for people with specific actuarial skills to carry out particular specialised roles. For consumers and the public to have confidence in them, just as they need to have in other professionals on whom they rely, the people who fill such roles must be clearly seen to be appropriately qualified. The professional actuarial qualification provides the necessary reassurance.

In long-term assurance business, under the supervisory regime that is currently being introduced, the roles that are reserved for actuaries are as follows. (Each is defined and explained more fully in the relevant regulations.)

- The individual fulfilling the Actuarial Function has responsibilities that include advice to the board of the firm on the methods and assumptions to be used in determining its liabilities for prudential purposes.
- The With Profits Actuary (in an office transacting with profits business) has responsibility for advising the board (and, depending on finalisation of regulations, the policy holders) on, amongst other matters, the extent to

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which the interests of policy holders have been taken into account in a reasonable and proportionate manner in the management of the business.

- The Reviewing Actuary, an external appointment, provides independent advice privately to the auditor of the balance sheet, on the actuarial investigation into the appropriate provisioning of the liabilities.

Q1.4

In some cases, actuaries holding reserved roles have, in the past, been accorded the status and authority of what might be termed a “quasi chief executive” rather than those of an advisor, albeit a very important one, to the board. Where this has happened there may have been misapprehensions of the conclusiveness of an actuary’s opinions, with the result that some of the responsibility for the proper management of the firm may have been misplaced.

Q1.5

Yes, and the introduction of these is already in progress within both Standard Life and the actuarial profession.

Q1.6

Our employees embrace a healthy variety of professional disciplines and we encourage the use of multi-disciplinary teams. In general, our experience is that actuaries and other professionals find that such teams are effective.

Accountability of actuaries

Q1.7-1.10

In general, an actuary in a firm such as Standard Life provides advice to his employer, who is in effect his client. Our view is that the actuary should not, per se, assume wider responsibilities, for example to police profit margins in a free market or to act as guardian of the interests of consumers. Other than the common duty to report any action that appears unlawful, an actuary does not, and should not, have an overriding responsibility to judge the appropriateness of his employer’s actions. Vague and impracticable duties to act in the public interest simply give rise to false expectations.

The Profession

Q1.11-1.14

We encourage our actuaries to become involved in the profession.

The roles undertaken by Standard Life actuaries include:

- Council, Board and Committee membership and chairmanship,
- examination setting and marking, and
- participation in research and other professional working parties.

We particularly value the important work done by the profession in commenting, particularly to politicians and regulators, on new and existing market issues.

Entry into the Profession

Q1.15-1.21

As a long-established and, we believe, well-regarded actuarial employer, we have no difficulty in attracting and recruiting able candidates with the necessary skills to train as actuaries.

We find that the profession's education syllabus serves our needs well. However, we welcome the fact that it and other elements of actuarial education are reviewed from time to time and developed to suit changing needs. In particular, we expect the new system being introduced for the 2005 examinations to continue this process of improvement.

The market for actuarial services

Q1.22-1.29

External actuarial service providers can help firms to implement new techniques and approaches to long-term financial business. This can be in support of business development or of compliance with the requirements of regulations. In recent years the scale and pace of changes in the regulatory regime have made particular demands of actuarial resources.

In many cases when actuarial support is sought, specific prior experience is an important requirement. The opportunities to gain this are limited and in consequence it is understandable that there are not many actuarial service providers from which to choose. But in our experience the choice has been sufficient.

From time to time we use consulting actuaries from a number of different firms and have experienced no real difficulty in doing so.

We believe that we understand the advice that we receive from consulting actuaries.

We are not clients of the Government Actuary's Department.

International comparisons

Q1.30-1.33

We find that the skills and professionalism of our UK actuaries have made them valued members of the multi-disciplinary teams that have helped to establish and manage our overseas operations.

Our actuaries have not encountered any serious professional difficulties in working overseas in, for example, Canada, China, Germany, India and Spain.

Other professions

Q1.34-1.37

We expect there to be a number of changes, arising in the UK, the EU and elsewhere, that will affect the accounting and regulatory frameworks within which Standard Life operates. Many of our actuaries and other professional staff will be involved in ensuring that we meet whatever is required of us.

We welcome the actuarial profession's proposed development of an Actuarial Standards Board and believe that it is important that such a body does not just deal with high level standards but also gives guidance on certain more detailed issues, for example on assumptions that are appropriate for the purposes of financial reporting.

CHAPTER 2 - THE CURRENT REGULATORY FRAMEWORK OF THE ACTUARIAL PROFESSION

The regulatory role of the Profession

Q2.1-2.4

The role of the profession is to ensure the quality of actuarial advice through the maintenance of appropriate professional controls. It is not the role of the profession to protect consumers directly.

The role of the Appointed Actuary

Q2.5-2.8

We agree in general with the FSA's move to abolish the position of Appointed Actuary and to introduce the differently positioned roles of Actuarial Function holder and With Profits Actuary. We believe that the change will make it clearer that the holders of these reserved roles are giving advice to the board and that it is the board who have the responsibility for the actions that the firm takes.

It is vital that non-executive directors are able to challenge both the general approach of actuaries who advise them and the assumptions that they make. But we do not believe that it is necessary for all non-executive directors to be able to challenge the detail of actuarial calculations.

Some of the underlying principles may be more accessible in the new realistic reporting regime but most of the calculations remain necessarily esoteric.

The role of the Scheme Actuary

Q2.9-2.14

Although Standard Life no longer has members of staff carrying out Scheme Actuary roles, we would emphasise the importance of advice to pensions schemes on long-term finance. The professional regime of actuarial qualification and practising certificate provides trustees and members of schemes with the confidence that advice is underpinned by the requisite skills and experience.

General insurance and the role of the Syndicate Actuary

Q2.15-2.17

We have no comments to make other than to reiterate more generally the point made above, that those who depend on advice need to have confidence in those who provide it.

Investment

Q2.18

We are not aware of any issues that need to be drawn to your attention.

Q2.19

We have no observations to make on this.

Maintenance of professional competence

Q2.20-2.23

We believe that the current practising certificate regime works well and that its proposed extension will help to maintain standards and the confidence of consumers.

The diverse CPD programme run by the profession is useful and fits well with the CPD activities that are arranged independently by actuarial firms and commercial organisations.

Whistle-blowing

Q2.24-2.26

We believe that the framework around whistle-blowing and the level of disclosure by actuaries to protect the public interest are appropriate.

Standard-setting

Q2.27-2.32

There is room for improvement in the Manual of Actuarial Practice; not all guidance on technical standards is as unambiguous as it could be.

We believe that the profession has an important role to play in providing technical guidance.

As mentioned already, we are keen that the proposed Actuarial Standards Board should give detailed guidance on certain matters as well as set high level standards.

Openness, peer review and audit of actuarial work

Q2.33-2.37

We welcome the inclusion of the valuation of a life office's long-term liabilities within the scope of the audit. It is important that there is a proper audit of the board's representation of the financial position.

Peer review of actuarial advice to the Standard Life board already plays an important part in our governance procedures. While we have no issue with the general extension of peer review, we believe that its purpose is to ensure the quality of actuarial advice given to a firm. It should not be expected to have a direct role in consumer protection.

Monitoring, complaints and disciplinary schemes

Q2.38-2.43

We have no experience of the new disciplinary processes.

We recognise that the FSA employs a number of actuaries but in our view it could make greater use of actuarial advice both in its development of policy and in carrying out supervision. There have been a number of Standard Life actuaries seconded to the FSA to support its work, and one is currently on secondment. The FSA has given us to understand that it has found these secondments of great benefit.

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

Q3.1-3.8

Standard Life has never been a client of the GAD; when the GAD had a role in the review of life office regulatory returns its client was the DTI.

It is essential for the government to receive appropriate actuarial advice. Some of the matters that have to be addressed are confidential and commercially sensitive, and for some tasks it might be inappropriate to use external consultants. Also, since all but the smallest insurance companies find it cost-effective to employ their own actuaries it seems likely that the government would find likewise.

Aside from such practical considerations, the use of Civil Service actuaries should give the government and the public confidence that advice is disinterested.