

PricewaterhouseCoopers response to the first Morris consultation document on the actuarial profession

General points about PricewaterhouseCoopers

PricewaterhouseCoopers is a multi-disciplinary professional services firm offering a range of services including advice and the undertaking of certain reserved roles (e.g. as auditors, scheme actuaries etc). We employ accountants, lawyers, actuaries, tax advisers, economists along with a range of other professionals and experts.

As such, and according to the 2004 Actuarial Directory, we are the fifth largest employer of actuaries and the fourth largest amongst consultancies.

General points about serving the public interest

Experience tells us some general principles in relation to public interest and competition:

- Public interest can be compromised where any party involved has a conflict of interest
- Public interest may, on occasion, need professionals to serve in a reserved role which requires independence. There can sometimes be conflicts or threats to independence or objectivity which need to be resolved
- It is for the public to decide what is in the public interest and where reserved roles are needed. By “public” we believe this means Government, regulators etc. But they need proper input from the profession and professionals to understand the issues and determine how to address them.
- Conflicts and / or threats to independence / objectivity typically could arise in one of two situations in relation to reserved roles:
 - (a) The person in the role is an employee and therefore dependent on the employer for pay, career prospects etc.
 - (b) The person in the role is external but is earning income in relation to the affairs of any other connected person (e.g. trustees and employer) which could cause conflicts of interest to arise.
- Those in reserved roles need to meet certain standards. This then implies a duty on the profession for training and discipline, along with audit / peer review compliance and standards. Given that any reserved role is because of a public interest need, it is vital that any standard setting board has public interest representation combined with practical actuarial representation to deal with standards relating to reserved roles. In this context, we welcome the proposed actuarial standards board although it is not necessarily the only model and the audit / accounting model should also be examined to see if there are any lessons for the actuarial profession before any button is pressed.
- In considering independence and conflicts of interest, the following process seems sensible before arriving at answers / solutions:
 - (i) “Public” to establish whether or not there is a need for a reserved role in any situation. The fewer such roles the better from a competitive position so it would exist only where necessary to ensure quality and consistency of advice / certification in situations where other approaches cannot work

- (ii) determine whether the type of certification is appropriate, complete and not giving rise to unintended expectation
- (iii) For each reserved role, determine whether there is a risk to independence or a conflict of interest and if so is it category (a) or (b) above.
- (iv) Determine the list of options available to address the position. Different answers may well apply to (a) compared with (b).
- (v) Review how other professions deal with the issues and the extent to which their answers are applicable / appropriate.

Only then can analysis start to narrow down options and arrive at a solution.

Our concern is that there is insufficient analysis at present on (i) the potential conflicts and threats to independence and objectivity in the actuarial profession and (ii) the options available.

Accordingly, our submission addresses this particular issue and we leave open at this stage our views on the possible options/approaches that we list.

The process above for each of the three main business lines for actuaries therefore leads us to the following:

Life Assurance

In the life assurance industry there are potential threats to the independence of actuaries holding roles in which they are required to protect the interests of policyholders whilst being an employee of the company.

This potential threat to independence is most visible in the role of the with-profits actuary and the FSA has developed regulations for the conduct of this role. The role of with-profits actuary requires considerable skill and judgement. We believe that actuaries are best qualified to perform this role and welcome the regulations creating a reserved role. However, potential threats to independence may arise in other situations requiring discretion, outside of the scope of the with-profit actuary's role, for example, setting administration and mortality charges on unit-linked business. There is a need to be absolutely clear, for each of the areas requiring discretion, who in the organisation will be looking after the interests of policyholders and what mechanism is in place for ensuring independence.

There needs to be a full debate on whether, and if so how, policyholders' interests need protection for each of the many areas of discretion. A different solution may be appropriate for each. We do not put forward a preferred solution at this stage because we feel it is important that the issues are debated fully and that a wide range of options is considered in the debate. These options could include, inter-alia:

- **Peer review.** We welcome moves by the Actuarial Profession to develop a peer-review framework. We would urge that this framework is developed very much in harmony with the requirement for inclusion of actuarial liabilities within the scope of the audit through the creation of the role of a reviewing actuary. Otherwise, there is a risk of potential overlaps, lack of clarity on what is being certified and ultimately excessive burden on life assurance

companies. We believe the actuarial profession's guidance on independence is weak and should be brought into line with that of the accounting profession.

- **Market mechanisms.** There may be situations where areas of discretion need to be exercised in a commercial context for which it remains appropriate for the directors of the company to be responsible. This would be appropriate where one can demonstrate that it is in the interests of an efficient and competitive market. In these situations there would be no need to create reserved roles for actuaries.
- **Legislation of product.** There may be certain limited situations where it is appropriate to legislate on aspects of product design, thereby removing the need for exercising discretion and judgement (as in the case of stakeholder pensions). However, great care should be taken not to limit competition and choice for customers, which is arguably the outcome of other attempts to legislate product design. There are alternatives, one of which could be that Boards of Directors provide written standards and guidelines on product design and put in place controls to ensure that they are complied with. This could work in a similar way to the Principles and Practices of Financial Management and need approval from the regulator.
- **Role restrictions.** If the directors of the company are responsible for all areas of discretion one could take the view that a certification by an independent actuary who is not an employee of the company is the only way to avoid threats to independence.

General Insurance

Over the past 30 years actuaries in the UK have extended considerably their involvement in the general insurance industry, and now provide advice to company management in a wide variety of areas of work. This includes reserving for future claims liabilities, the pricing of risks, the design of reinsurance programmes, planning and management information, capital management and allocation, mergers and acquisitions, transfers of portfolios, commutations and the closure of insurance companies in run-off or provisional liquidation. Most recently, actuaries have become closely involved in the implementation of the new risk-based solvency regime within companies.

In our view this extension of actuarial involvement has been generally beneficial for the general insurance industry. The demand from the industry for a better understanding of risk and improved analytical skills has been met by actuaries. This success for actuaries has, in the main, come about from demand from the general insurance industry for the skills and attitude which actuaries possess, rather than from regulatory changes. The only statutory reserved role for actuaries in the UK insurance industry is in relation to reserving for the liabilities of Lloyd's syndicates.

We consider that actuaries can play an important role in general insurance reserving, and indeed for many years the involvement of PwC actuaries has been mandatory in our general insurance company and syndicate audits. We do not consider, however, that the extension of the reserved role for actuaries to all insurance companies, rather than just Lloyd's syndicates, is necessarily the best use of relatively scarce actuarial resources for the overall wellbeing of the insurance industry. In our view the other more forward-looking areas we have previously mentioned are ones in which

actuaries can add greater value to the industry. One danger of a system under which reserves are "certified" is that it can imply an unrealistic level of certainty or adequacy in the estimate, considering the extremely uncertain background against which reserve estimates are made. Actuaries face a considerable challenge in communicating this inherent uncertainty. We also note that the actuarial profession is due to debate this issue at the annual general insurance convention in October 2004.

Pensions

There are a number of potential conflicts that exist with appointment of advisers and the constitution of the trustee body

In support of this point, it is clear that where a scheme actuary gives some types of advice to an employer (e.g. on how to handle the discussions with trustees on contribution rates as just one example) the mere giving of this advice could prejudice the advice given to the trustees, leading to lower funding levels than might otherwise be the case and therefore with potential benefit reductions for members. Further examples of possible conflict occurs with surplus / deficits and merger / acquisitions / disposals of participant employers. We cannot see those conflicts to be in the public interest.

It therefore is incumbent on scheme trustees to have a policy on their handling of conflicts of interest and independence.

But that is wider than issues around actuaries and should therefore fall into good governance processes.

That said, there is a reserved role for actuaries in the scheme actuary position which leads to a number of responsibilities, reports and certifications. To our knowledge, all such appointments fall under category (b) above – i.e. external appointments.

The range of reports and certificates that come under the reserved role seems to be more than is needed. In our view, a review should be undertaken, for competitive reasons, as to what is needed from a public interest perspective as opposed to what may be a good idea. For example, the content of many actuarial reports making recommendations seems excessive when the public interest may be better served by short certifications of what others have done. Clearly this cannot be changed without changes to legislation but Morris could think about making recommendations about the style of outputs necessary from a reserved role in order to assist competition.

Accepting that there are reserved roles for actuaries in relation to scheme / trustee work and that the potential for conflicts does exist, we believe that consideration needs to be given on ways to resolve the specific category (b) conflicts faced by scheme actuaries. The position in other professions suggest there needs to be some do's and don't. A proper debate should be entered around whether there should be any restrictions and, if so, how they would work. This could be on one of a number of bases. For example, (a) a blanket "the actuary for the scheme cannot give advice to the employer", (b) the drawing up of a fundamental list of principles supplemented by detailed rules where necessary which could include some restrictions on service for other parties

from the scheme actuary, (c) a requirement that before any scheme actuary can give advice to the employer, there has to be an approval process which works for both parties or (d) scheme actuary advice is peer reviewed by yet another independent actuary. For reasons discussed earlier, we put these options forward for consideration to encourage debate and in this letter just add a further question as to whether there should be a single regime or a different approach for smaller schemes where costs could be an important consideration.

Morris Review of the Actuarial Profession

PwC's response to the initial consultation document of June 2004

This document answers some of the specific questions raised in the initial consultation document.

The scope of the actuarial role

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?

We believe that in certain circumstances, public interest may require certain roles to be reserved for members of the actuarial profession to fulfil, particularly roles that involve certification. This is to ensure that those fulfilling the role deliver adequate advice, incorporating professional training and discipline along with audit/peer review compliance and standards. We believe that as such roles are driven by public interest, it will ultimately be down to the government/regulators to decide where these roles should be retained. If the decision is taken that reserved roles are restricted purely to those involving certification, then the number of such roles may reduce. We would however note that in determining the scope of these roles, detailed input should be sought from representatives of the profession.

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

In many cases, advice given in these roles is quite specialised. In some cases this has led to an 'actuaries know best' attitude, leading to unclear and over-complicated advice.

In our experience however reserved roles in themselves do not prevent actuaries from communicating with other professionals. There also has to be an impetus from the other professionals to want to communicate with the actuaries. We have noted that good working relationships can be built up quickly when there is willingness to communicate and invest time from both sides – witness the excellent relationships many auditors have with appointed actuaries.

Q1.5 If roles reserved exclusively to actuaries are maintained, do you think that there is a need to introduce a greater peer review and scrutiny of such work?

Public interest would require that any work carried out by an actuary in a reserved role should be subject to adequate checks on its quality. Mechanisms have to be put in place to address conflicts or threats to independence. Peer review is one option, but may not be right in all situations.

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

Any way in which awareness and understanding of actuarial skills can be increased is welcome. This may well be via closer links with other professions. Within firms such as PwC, there are already close working practices between actuaries, accountants, tax advisers and other professionals. However there are other professions with which actuaries could benefit from working more closely.

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 purposes” for customers? 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?

There may have been some circumstances in the past where certain features of unit-linked policies (e.g capital units or up-front surrender penalties) may have resulted in products that were difficult for consumers to understand. The inherent complexity of the products may have contributed to the risk that the product would not be suitable for certain policyholders. However, actuaries working in product design cannot be held to account for the entire product development and marketing process and generally had no influence over the way products were sold. New regulations emerging from Treating Customers Fairly would mean that some of the practices used in the past would not be used in future. We also see a need for stronger internal governance of product development one of which could be that Boards of Directors provide written standards and guidelines on product design and put in place controls to ensure that they are complied with. This could work in a similar way to the Principles and Practices of Financial Management and need approval from the regulator.

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?

In most circumstances, actuaries should be accountable to their clients. This would normally be set out in formal Terms of Engagement, which would also set out circumstances where accountability is to the actuary's employer or to other parties, e.g. regulators.

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?

See response to Q2.12.

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 the employers? Is this good or bad?

PwC recruits student actuaries who demonstrate commitment and aptitude for the challenging career we are able to offer them here. The training of student actuaries and actuaries at PwC is designed to ensure they have the right mix of skills (technical and consulting) so that they are able to provide a high quality of service to our clients. We imagine the same would apply to a number of other businesses that employ actuaries.

The biggest influence on the actuarial curriculum is probably not directly from employers, but indirectly through employers' assessment of the needs of clients and the marketplace and through the development of new actuarial techniques. It is these that also shape the training that companies provide to their student actuaries.

We encourage actuaries to seek further qualifications e.g. MBA, Institute of Risk Management and to actively attend courses at PwC, IOA or other organisations to broaden their skill base. Most particularly we encourage on-the-job development of our staff by allocating resources in an appropriate manner to encourage development of people and skills. We do not see the actuarial qualification as the end to training and development, but the start.

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 current actuarial qualification syllabus has much to recommend it. It provides a solid and thorough grounding in actuarial techniques as well as more general topics of relevance, before specialising in a particular field of practice.

Our actuaries are able to access a wide range of training facilities at PwC of both a technical and wider-skills nature, and our performance appraisal system takes this into account. Although the actuarial qualification provides a technical grounding it is far from the only training and development which an actuary or trainee actuary would receive in our firm. In addition to this our actuaries are exposed to a wide range of commercial situations and different types of business allowing them to build up extensive commercial awareness and personal skills.

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

Over the last few years, there has been much development in the fields of financial markets and financial economics. This has been reflected over time in the syllabus. However as wholesale alterations to the syllabus only occur once every few years, inevitably there is still considerable emphasis on "older" actuarial methods. It is, of course, important that actuaries appreciate how methods develop over a period of time.

There is scope for more structured training of existing actuaries by additional optional courses provided by the Institute. Alternatively actuaries can study financial economics through other courses e.g. at business school or part of an MBA if they are sponsored by their employers.

We have noted that in recent years many graduates who might previously have chosen the actuarial profession are favouring careers in finance with investment banks. The actuarial profession is facing more competition in this area as other interesting and better-paid careers are emerging.

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

There are few links with other professional qualifications.

Although the student body is quite diverse in terms of sex and ethnicity it could be more so. This is largely reflective of the general student population. However the more senior ranks of actuaries are not really diverse by any definition. We have noted that there is no female member of the Life Board. It will take time for the more diverse student membership to filter through, and perhaps in the meantime this is an opportunity for the Institute to use members of other professions to fill some vacancies. PwC as an organisation has a policy on diversity and is making efforts to improve its own diversity.

There is certainly room for improving links with other professions' qualifications. For example, some courses run at London Business School in options and derivatives could be recognised for the Certificate in Derivative Techniques. It makes sense for actuaries to feel recognised in their own profession for qualifications gained elsewhere – and it might encourage them to mix with other professions developing wider business knowledge.

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?

Yes, but given economies of scale it is difficult to encourage a competitive market in actuarial training. Competition is likely to improve the quality and variety of the training on offer. For example more multi-media methods could be used.

The market for actuarial services

Q1.22 What have been the main drivers of demand for actuarial services over the last 10 years? How do you see the demand for actuarial services evolving in the future?

Over the last 10 years, one main driver of demand for actuarial services, especially in the pensions industry, has been an increasing burden of legislative and regulatory frameworks. There has also been the issue of mis-selling that has generated a lot of demand. More recently, the accelerated closure of defined benefit pension schemes has led to a demand in general reviews of pension schemes, not least due to the increased public awareness of the state of pension funding.

In the life industry the evolving regulatory and financial reporting environment has been a major driver of demand for actuarial services. Drive for efficiency and shareholder value has also increased the demand for actuarial services. Improvements in technology have made it easier for actuaries to use more sophisticated modelling techniques, which has increased demand for skilled actuaries.

Mergers, acquisitions, disposals and demutualisations also increase the demand for actuarial skills in the pensions and insurance arenas, although these tend to occur in phases across industries.

Q1.24 Is it easy for consumers to switch between actuarial service providers? If not, what do you think could be done to encourage switching?

We believe it is relatively easy to switch between actuarial service providers. This process would be made easier if the reserved roles were re-examined. It is also important in this context to avoid conflicts.

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 information shortfall, how important an influence on the market and what, if anything, do you think might be done about it?

A lot of actuarial advice is complex and we believe that in general advice is not sufficiently well understood. In part this stems from complex guidance notes from the actuarial profession requiring a large amount of (and often conflicting) information to be included in the advice. For example, guidance on reporting on the funding if a pension scheme requires statements to be made on an ongoing, MFR and solvency basis, as well as illustrating the sensibility of results. Such reports often run to over 20 pages in length.

Another cause is a lack of report-writing / sales / business awareness skills amongst some members of the profession, although to some extent it is unfair solely to blame actuaries for poor communication, when some difficulties are caused by the gap in knowledge more generally.

One possible approach to remedying this situation would be to restrict reserved roles simply to providing certifications, thus increasing the level of competition in the market.

Q1.29 Do you think that the GAD competes with private sector suppliers of actuarial services in the market? What impact do you think GAD has on competition in the market

Yes, the GAD does compete with the private sector in certain areas e.g. local authority schemes and assistance to overseas governments. Because GAD appears to compete on a marginal cost basis this tends to reduce fees generally to the point where a lot of bigger mainstream firms feel unable to compete, thereby reducing competition and potentially impacting quality.

International Comparisons

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

From our own experience, the skills and professionalism of UK actuaries are regarded very highly internationally. For example, we are aware of a US insurance group that always tried to recruit Fellows of the Faculty or Institute of Actuaries for positions in its subsidiaries outside the United States.

At PwC in the UK we employ a number of overseas actuaries. Some overseas qualifications are very similar to our own, whereas others are less detailed in some parts of the syllabus. It is not always possible to translate an actuary from another European country directly into the UK market without building up their experience.

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

It is relatively easy for actuaries to work across certain international boundaries. In some countries, particularly non Anglo-Saxon countries, there remain language, cultural and legal differences that are difficult for actuaries to overcome – difficulties that apply to the wider business world and not just to actuarial skills.

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 a single unified and independent regulator the Financial Reporting Council?

We welcome the proposed actuarial standards board, although it is not necessarily the only model. The accounting professions model should also be examined to see if there are any lessons for the actuarial profession before anything is taken further.

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

Solvency II and IFRS will have profound effects on the actuarial role.

Scope of the actuaries' statutory or reserved roles

The role of the Appointed Actuary

Q2.5 Do you think 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?

We are concerned that there are still fundamental risks to independence for the with-profits actuary. Although the with-profits actuary is expected to defend the interests of policyholders, the actuary is remunerated by the company, and the actuary's career progression is dependent on the company. There is potential for pressure (whether actual or implicit) for the actuary to compromise the policyholders' position. This may also leave the actuary in an isolated position with little

opportunity for peer or supervisory support. In principle, therefore, we believe that the with-profits actuary should be subject to independent review. This independent review could be performed by the with-profits committee (though this would need to comprise a majority of members without any potential conflict of interest or risk to independence) or independent non-executive directors (not remunerated by the firm). Ideally, in our view, it should be provided by independent audit. We are in agreement with Lord Penrose that auditing one half of the balance sheet only (assets but not liabilities) 'is like commissioning the two legs of a pair of trousers from separate tailors'. We believe that the obvious method to overcome this problem is for the audit to be carried out by a joint team of accountants and actuaries, employed by a single firm which is responsible for the overall audit.

The level of independence required in the life insurance industry should not be set at a different standard to other industries, despite the inherent complexity of the business. We are not aware of any other industry where only half the balance sheet is subject to independent review. Many years ago audit firms did not employ actuaries so independent audit would have been a problem, but this barrier no longer exists.

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

Actuaries in general are not well-versed in techniques used in other areas of risk management, for example the management of credit, market and operational risk. Although considerable progress has been made on this front with the introduction of the recommendations of the Tiner review and the imminent introduction of ICAS, this would be currently an area of concern for us.

We would also like to express a concern with the level of criticism currently being directed at the actuarial profession by other parties. There is often an unrealistic expectation that actuaries can predict the future and a level of ignorance of the uncertainties surrounding modelling techniques.

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?

Given the complexity of the insurance industry, it should be a requirement for some NEDs on the board of an insurance company to have sufficient actuarial expertise to make technical judgements. This expertise could be provided either by independent suitably experienced actuaries on the Board, or by seeking ongoing advice from external actuarial consultants. Although every single NED does not need extensive actuarial knowledge, the Board as a whole should be in a position to challenge and debate technical actuarial issues. One possible idea is for a professional 'actuarial facilitator' to be employed by the Board, to ensure that the Board are in a position to hold a sensible and meaningful debate. The most dangerous situation is a Board which 'does not know what it does not know'. For this reason the regulator should be able to ask the Board to prove that it has sufficient expertise to challenge management, and indeed provide evidence that it has done so.

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?

On the question of reserved roles, we believe that public interest will demand that some roles are retained exclusively for actuaries. Whether this includes the scheme actuary role will be down to an agreement between the government regulators and the profession, however we feel that any continued reserved role should be restricted mainly to providing certifications subject to what the law requires.

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?

In answer to the first part of this question, we believe that in certain circumstances some trustees may find that they have gaps in their knowledge. However, in response to this and also to the second part of the question, the training (or lack of) provided to trustee bodies is not down to the actuarial profession. Myners has already suggested how trustees should monitor their own effectiveness. This issue is more down to good pension scheme governance and should not require any interference from the actuarial profession. That said, addressing the potential conflicts referred to in our highlight section would result in a major improvement.

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, although many actuaries will have their advice reviewed by a colleague within their firm, it is not often that such advice is sufficiently independent or independently reviewed. It is not necessarily the case that peer review is the best answer – please refer to our highlight section.

Q2.12 To whom should the Scheme Actuary be accountable? What will 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 trustee and the pension scheme sponsor? Is there a need for a separation of these role?

All professionals should be accountable to their client. In this case of a scheme actuary, this is typically the trustees of the pension scheme they are advising. The conflict of interest of having the same actuary advising the trustees and pension scheme sponsor is very much also a current issue, but will be magnified with the removal of the minimum funding requirement. In part the management of this conflict should be covered by the scheme trustees and part of their general governance structure, however we do recognise that the actuary profession has a big part to play in resolving this issue. Consideration needs to be given on whether and how rules need to be drawn up on the services that the actuary can provide to either party. For example, (a) a blanket “the actuary for the scheme cannot give advice to the employer”, (b) the drawing up of a fundamental list of principles supplemented by detailed rules where necessary which could include

some restrictions on service for other parties from the scheme actuary, (c) a requirement that before any scheme actuary can give advice to the employer, there has to be an approval process which works for both parties or (d) scheme actuary advice is peer reviewed by yet another independent actuary.

With the increasing burden of regulations and statutory frameworks over the last few years, a requirement for each party to have two actuaries (with the potential for increased fees) may not be universally accepted particularly for smaller schemes.

Q2.13 To what extent has actuarial advice contributed to the way occupational pension schemes are funded in the UK? How will the Pension's Bill proposals affect the role and power of actuaries advising pension schemes sponsors and trustees?

The funding of pension schemes in the UK is governed by various forces, one of which is actuarial advice. It should be borne in mind, however, that a major contributing factor is that there are various regulatory constraints on how much funding can be paid into a UK pension scheme.

Whistle-Blowing

Q2.26 Is there an appropriate level of disclosure by actuaries to protect the public interest?

In the pensions market, we believe that there is now an appropriate level of disclosure by actuaries.

However, in some situations there may be scope for actuaries to make more, better focussed disclosures to ensure that the recipients of advice fully understand the implications and to manage the expectations of those the advice would ultimately affect. This would help to protect the public interest.

Standard-Setting

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?

We welcome the proposed actuarial standards board, although it is not necessarily the only model and the accounting professions model should also be examined to see if there are any lessons for the actuarial profession before anything is taken further.

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?

The Profession does work with other professions, particularly the accounting profession in the setting of standards.

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?

This question can also be expanded to cover the general culture of the actuarial profession.

The culture of the actuarial profession is quite unique in many ways – gentlemanly, quite old-fashioned, high respect of technical experts. This culture may have led all actuaries thinking the same (group mentality) and not realising that other people might view the situation directly – actuaries obeying the spirit rather than the letter of the law (or the policy document).

There are many plus sides to this culture (e.g. trust rather than peer review paying off in most cases – but not necessarily all!). Actuaries going for the shortest route to the answer – as a mathematician would, not presenting details (as accountants) – can lead to lack of communication. This cannot be entirely blamed on actuarial exams alone – firms should ensure they employ some actuaries who can communicate. On the plus side actuaries are dealing with complex situations in a very efficient manner. Actuaries have many skills other professions do not e.g. IT, modelling.

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

A greater commonality in approach would help. Training sessions on issues such as “how does an auditor work” would also be of benefit.

Actuarial firms need to employ actuaries who can communicate, and encourage communication skills in management training. PwC does not rely on the actuarial qualification but has extensive staff development outside of this.

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?

We endorse incorporation of the actuarial liabilities into the scope of the independent audit. Taking this further, we agree that there should be peer review of certain key elements of an actuary's work in particular where there is an implication for protecting policyholders' interests, either in the actuarial function exercising discretion or in determining levels of capital adequacy. Any other areas of actuarial work which do not have implications for either fair treatment of policyholders or solvency should not be subject to review. Insurance companies are entitled to employ experts to give them commercial competitive advantage (for example in product design) and these actuaries should not be accountable to public interest any more than should an accountant working in a commercial environment. The responsibility for mis-selling of endowments or pensions would lie with those professionals who claim to represent the policyholder's interests i.e. the financial adviser or salesperson.

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

An actuary's advice should primarily be directed to his/her client. Opinions to, for example, scheme members would be best made via the trustee (or equivalent) body.

PricewaterhouseCoopers
24 September 2004