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8<sup>th</sup> September 2004

Sir Derek Morris  
Morris Review of the Actuarial Profession  
1 Horse Guards Road  
London  
SW1A 2HQ

Dear Sir Derek

### **The Morris Review**

I am responding to the letter which you sent me on 21<sup>st</sup> July; as requested I am sending you my submission in an electronic format. Your letter was addressed to me as a non-executive director of the Standard Life Assurance Company, but my response is based not just on my experience in that capacity, but also as the Chairman of Equitas, where the actuarial function is central to our negotiations with our counterparties (in respect of both inwards and outwards insurances) and to the preparation of our accounts, and as the trustee of a defined benefit pension fund.

While also declaring my interest as a non-executive director of the Financial Services Authority, I must emphasise that the views set out below are my own and do not necessarily represent those of any of the organisations with which I am associated.

- 1) I believe that the most important single issue covered in your review is the need for clarification of the duties of actuaries towards their clients or employers, towards policyholders and towards the public interest - the issue raised under the heading 'Accountability of Actuaries' in part 1 of your consultation document.

It should be made clear that the actuary's duty is unequivocally towards his or her client or employer. This has always been my position towards the non-life actuaries employed by Equitas. It is the board of Equitas which is responsible for the judgements which we make regarding our solvency and for all aspects of our accounts. The board is put in an impossible position if some wider duty is imputed to the actuary. Similarly, now that the boards of life assurance companies are assuming fuller responsibilities for actuarially based decisions and for the preparation of 'realistic' regulatory reports, it is essential that there

should be complete clarity regarding the duties of actuaries advising the directors of those companies.

I therefore welcome the FSA's proposal to discontinue the Appointed Actuary role and to replace it with the distinct roles of the Actuarial Function Holder and the With Profits Actuary. I also welcome the creation of the role of the Reviewing Actuary. At Equitas it is already a key part of our governance that the work of our actuarial department should be the subject of external actuarial review as part of the audit process and I suggest that this system should become mandatory for all insurance companies. I see no reason why the new arrangements should not work well in practice, but it will be for the FSA to keep them under review as experience is gained.

It is also important that there should be clarity regarding the duties of actuaries to their clients in relation to defined benefit pension funds. In most cases the trustees of the fund should have separate actuarial advisers. (This does not mean that all the work needs to be done twice; the sponsoring company's actuary should be able to rely on a large amount of the work done by the trustees' actuary, and vice versa).

- 2) While the actuary's duty to his or her client or employer should be paramount, there will be times where actuaries can, and should, contribute to the public interest. Actuaries are uniquely well placed to analyse certain issues relating to personal savings, investments, pensions and life assurance. These are areas which are of fundamental importance to our society but which most people have great difficulty understanding. An example is the sale of personal pension products to members of final salary occupational pension schemes. Many members of the actuarial profession had strong reservations about the sale of such products and the withdrawal of those who bought them from occupational schemes.

Although the profession claims for itself a public interest role, it does not appear to have a clear view of how to perform this role. I do not believe that it can be left to individual members of the profession to raise issues of public interest and a better way needs to be found to establish and communicate the profession's views on public interest issues.

- 3) The Consultation Document poses the question whether non-executive directors of life assurers have sufficient expertise and information available to them. A similar question is raised by the Myners Review. I have direct experience only of the board of the Standard Life. It is perhaps for others to judge whether the directors of that company between them have sufficient expertise, but there is certainly no shortage of information available to them and free and open access to the Appointed Actuary and other advisers, including reviewing actuaries.

That said, there is no question that the role of the non-executive in any insurance company is particularly onerous and difficult - and that it is becoming more so. It is inevitable that the board of such a company will rely heavily on their advisers, whether these be actuarial, accountancy or legal. As stated above, it is essential that the duties of the actuary towards his or her employer should be made absolutely clear.

Further, at present the law appears to make no distinction between what is expected of a director of a life assurer and say, of an investment trust. It is therefore also important that a new Companies Act (i) clarifies the duties of a director, (ii) takes account of the fact that the duties associated with some directorships are much more onerous and difficult to discharge than others and (iii) permits a much broader indemnity to be given to directors who have acted honestly and in good faith, including in respect of the cost of defending actions brought against them. (It is possible that yesterday's announcement by the Secretary of State for Trade and Industry goes some way to meet the latter point, but a view on this must await a study of the detailed proposals).

The present and proposed system of governance of life assurance companies cannot function without competent non-executive directors, but the non-executive directors are under no compulsion to serve as such and many experienced and suitably qualified people already choose not to do so. Without the reforms proposed above, the supply of suitable non-executive directors will simply dry up, in which case the question posed by the Consultation Document will become academic.

Yours sincerely

**Hugh Stevenson**