

Morris Review
of the Actuarial Profession

Morris Review of the Actuarial Profession

A Consultation Document

June 2004

Contacts:

This document can be accessed at:
www.morrisreview.org.uk

For enquiries about this publication, contact:

Morris Review
GC/08
1 Horse Guards Road
London
SW1A 2HQ

Email: morris.review@hm-treasury.x.gsi.gov.uk

For copies of this publication please contact HM Treasury
Correspondence and Enquiry Unit:

Tel: 020 7270 4558

Email: enquiries@hm-treasury.gov.uk

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FOREWORD

On 8th March 2004, in response to Lord Penrose's Report of the Equitable Life Inquiry, the Government asked me to conduct a wide-ranging inquiry into the actuarial profession.¹

The terms of reference of the review are to:

Consider what professional and/or other regulatory framework would best promote recognised, high-quality and continuously developing actuarial standards, openness in the application of actuarial skills, transparency in the professional conduct of actuaries, accountability for their actions and an open and competitive market for actuarial advice in the UK.

In doing so:

- take into account developments in the actuarial profession, in regulation, and in the financial services market, in the UK and abroad;
- examine the roles of actuaries in the financial services sector, including in providing actuarial opinions in relation to audited accounts;
- build on the work of recent government and regulatory initiatives;
- examine the relationship between the Government Actuary's Department and the actuarial profession and with other parts of government;
- recommend a framework that will be independent in representing the public and consumer interest, and be accountable, flexible, transparent, and no more burdensome or restrictive than is clearly justified;
- make recommendations on the future role of the Government Actuary, the functions of his Department and its future institutional status.

The review will deliver a final report with recommendations by spring 2005.

In addition, the Government asked Paul Myners to conduct a review into the corporate governance of mutual life offices and the Accounting Standards Board to conduct an urgent study into accounting for with-profits business by life insurers.

In this consultation document I have set out some of the issues on which I would welcome your views. This is not necessarily a comprehensive list of the issues that the review will be considering, and your responses need not be restricted to the questions listed.

This document is divided into three chapters:

1. The role of actuaries, the profession and the actuarial services market;
2. The current regulatory framework of the actuarial profession;
3. The roles and responsibilities of the Government Actuary's Department.

¹ Source: Report of the Equitable Life Inquiry, The Right Honourable Lord Penrose, 8th March 2004

A key issue for the review is the extent to which the current framework of self-regulation by the actuarial profession adequately protects the public interest.² Lord Penrose's Report of the Equitable Life Inquiry raised a number of issues for the actuarial profession in this regard and these have been summarised in the attached note. Issues that the review will focus on include:

- the role of the Appointed Actuary;
- standard-setting and monitoring;
- audit, peer review and scrutiny;
- disciplinary procedures; and
- the role of the Government Actuary's Department.

If there are other points or issues that you wish to raise then please do so. I am particularly keen to hear the views of consumers and users of actuarial services. Not all of the questions will be relevant to all respondents – please feel free to skip questions which are not of relevance to you. Much of the factual descriptive information about the roles and responsibilities of actuaries has been supplied by the Institute and Faculty of Actuaries in their introductory note prepared for the review team for which I am grateful.



Responding to the review

Anyone wishing to respond to this consultation document should respond to the Morris Review **before Friday 10th September 2004**, including his or her contact details:

By email to:

morris.review@hm-treasury.x.gsi.gov.uk

or:

The Morris Review
Room GC/08
1 Horse Guards Road
London
SW1A 2HQ
Tel: (020) 7270 5961

Fax: (020) 7451 7670

All written responses will be made public on the review's website unless the author specifically requests otherwise. In the case of electronic responses, general confidentiality disclaimers that often appear at the bottom of e-mails will be disregarded for the purpose of publishing responses unless an explicit request for confidentiality is made in the body of the response. If you wish part but not all of your response to remain confidential please supply two versions – one for publication on the website with the confidential information deleted and another confidential version for the review team only.

² The UK's two professional bodies for UK actuaries, the Institute of Actuaries and the Faculty of Actuaries, are collectively referred to as the Profession throughout this paper.

THE ROLE OF ACTUARIES, THE PROFESSION AND THE ACTUARIAL SERVICES MARKET

THE CURRENT ROLE OF ACTUARIES

1.1 Actuaries are trained to apply mathematics, economics and finance to the management of assets and liabilities, most often where long-term planning is a critical factor. The work for which actuaries are most noted is the measurement and management of liabilities in life assurance, pensions and general insurance. These are the three areas where most actuaries work – either as employees or consultants – and the sectors in which there are roles reserved to actuaries by statute or regulation.

1.2 The main reserved roles are:

- ⌘ Appointed Actuary (life insurance);
- ⌘ Scheme Actuary (pensions);
- ⌘ Lloyd’s Actuary (for the Society of Lloyd’s as a whole);
- ⌘ Syndicate Actuary (for individual Lloyd’s syndicates); and
- ⌘ Appropriate Actuary (friendly societies).

1.3 In addition to these, there are reserved roles for actuaries to trust-based funeral plans, a number of unique reserved roles for the Government Actuary (see chapter three), including the provision of advice in relation to the administration of the social security system, and a number of other statutory roles for actuaries to advise in specific events, for example, the insolvency of insurers, friendly societies and pension funds, and on fund transfers. Actuaries sometimes have a role in accountancy, auditing standards, contractual agreements or trust deeds under which certain matters are left to be determined by, or on the advice of, an actuary.

1.4 Actuaries perform many non-statutory roles, not just within the insurance and pensions industries but also in related areas of business, for example, in investment management, healthcare, social policy, risk management, banking and demography. These are roles that can be and frequently are also performed by non-actuaries, often possessing alternative professional qualifications.

1.5 A brief description of the role of the qualified actuary in each of the four main areas of business in which they are employed follows. It is based on information produced for this review by the Profession and does not take account of actuarial trainees:¹

Life Assurance

1.6 There are over 200 authorised life offices in the UK employing approximately 1,400 qualified actuaries, whether as employees, directors or as advisers. Of these, some 120 perform the controlled function of the Appointed Actuary. A further 300 actuaries provide specific support to the Appointed Actuary working in reserving and valuation functions, while the remainder work in areas such as pricing and product development, marketing, research, risk management, and regulation.

¹ Source: An Introduction to the UK Actuarial Profession – prepared for Sir Derek Morris and his Review team by The Actuarial Profession, 14 April 2004. Available at www.actuaries.org.uk.

Pensions

1.7 Approximately 1,800 qualified actuaries work in the pensions industry, of which 1,400 provide advice to occupational pension schemes – of these, 960 actuaries perform the reserved role of the Scheme Actuary – and 300 are employed by insurance companies to advise their clients. Pensions actuaries advise scheme trustees on the triennial valuation of pension scheme assets and liabilities and advise employers and trustees on the funding of benefit promises and on the risks associated with particular funding strategies. They also design pension arrangements, monitor tax relief on pensions and provide regular advice on issues such as annuities.

General Insurance

1.8 Approximately 400 qualified actuaries work in the general insurance sector, providing advice to, or working directly for, insurance and reinsurance companies and Lloyd's syndicates. Of these, about 100 are predominantly involved in the process of reserving, where actuaries principally advise on the provision to be made for outstanding claims. The remaining 300 general insurance actuaries work in roles such as pricing, capital management, business planning and the purchase of reinsurance.

Investment

1.9 Approximately 300 practising actuaries work in UK institutional investment, principally within the fund management functions of life insurers or as investment consultants. An increasing number of actuaries also work for fund management houses and investment banks. Actuaries working in institutional investment perform a variety of roles, including asset-liability matching, the selection and performance measurement of investment managers, product design, portfolio risk management and index construction (including, for example, the FT-Actuaries series).

THE SCOPE OF THE ACTUARIAL ROLE

1.10 As outlined above there are a number of areas in which actuaries hold roles reserved to them by statute which are exclusively the preserve of qualified actuaries. These roles are looked at in more detail in chapter two. However, the majority of actuaries are employed in non-statutory roles in a wide number of functions such as reserving, asset and liability valuation, providing advice to pension scheme trustees and sponsors, investment management, pricing and product development. In many of these non-statutory roles, actuaries will be working alongside or directly competing with other experienced professionals such as fund managers or accountants.

1.11 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 asset side of the balance sheet; 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-oriented work of the insurance or pensions industry actuary, and the increasing involvement of other professionals in many of the areas where actuaries have traditionally worked, raises issues about the appropriateness or otherwise of reserving roles exclusively for actuaries.

1.12 Lord Penrose argued in his Report of the Equitable Life Inquiry that the scope of the actuarial profession has at times been too narrow. He was particularly critical of the appointed actuary role reserved to actuaries in the valuation of life insurer liabilities, which fell outside of the scope of the audit and was therefore the exclusive preserve of actuaries with no external scrutiny or audit.

“The limited scope of audit up until 1995 was therefore the result of a policy decision taken in the early 1970s, fully informed by consultation with GAD [Government Actuary’s Department], the industry and the professions, that secured the actuary’s control over the quantification of the long-term fund effectively to the exclusion of challenge by the auditor on true and fair grounds.” (Penrose 11.35)

1.13 Conversely, Lord Penrose also argued that actuaries have, on occasion, taken upon themselves responsibilities that are beyond the scope of their professional discipline, and have not always recognised the need to seek advice from other professionals.

“One has the impression that actuaries have at times acted as if they were fully qualified in accountancy, law and other disciplines so as to need no outside support.” (Penrose 20.36)

Questions

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?

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?

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?

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

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?

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

ACCOUNTABILITY OF ACTUARIES

1.14 A number of commentators have highlighted the potential for conflicts of interest faced by actuaries from their duty to their employer and their duty to act in the public interest. This potential for conflicts of interest, in the context of endowment mortgages, is an issue that Walter Merricks, Chief Ombudsman of the Financial Ombudsman Service, raised in his lecture to the Institute of Actuaries in 2001.²

² Source: *Ibid.*

“Having searched your professional conduct standards, I am still left wondering what duties a member of the institute has when advising or assisting in the design of a product that he or she can see that may make the company a lot of money but is not going to be fit for the customers’ purpose. And how does this fit in with your proclaimed public interest role?” (Walter Merricks, 2 July 2001)

1.15 He also raised these concerns about conflicts of interest and accountability in relation to pensions mis-selling. During the late 1980s and early 1990s many consumers were advised to transfer out of their existing occupational pension schemes into personal pension schemes. Actuaries would have been involved in the calculation of the transfer values and subsequently the regulator ruled that many consumers had been mis-sold these pensions.

1.16 Walter Merricks asks “were actuaries for schemes out of which people were being persuaded to transfer or for companies selling personal pensions unable to see what the Personal Investment Authority (PIA) finally saw [that many consumers were being mis-sold]?”

1.17 The problems that arose with both endowment mortgages and pensions mis-selling highlight the issues around potential conflicts of interest and whether actuaries are primarily accountable to their client or employer or to policyholders, consumers, pension scheme members and the broader public interest. Other commentators have pointed to actuaries’ role in designing unit-linked insurance policies as further evidence that actuaries’ primary responsibility appears to have been towards maximising sales for their clients or employers rather than in delivering policies that are likely to meet policyholders’ expectations.

Questions

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?

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?

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?

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

THE PROFESSION

1.18 The Institute of Actuaries and the Faculty of Actuaries are the two professional bodies for UK actuaries. The Profession has the twin roles of representing members to the outside world and regulating members for the benefit of the public interest.

1.19 In its introductory note to the review, the Profession described its role as:

- ⌘ *regulation* of members both in terms of an ethical code and technical standards;
- ⌘ *education* of new entrants who wish to become actuaries and continuing professional development of existing actuaries;
- ⌘ *co-operation* with government, business, regulators and other professions;
- ⌘ *innovation*, through research and debate to expand the horizons of actuarial knowledge; and
- ⌘ *promotion* of the work of actuaries in general (not of individuals or firms).

1.20 The Faculty and Institute are each governed by a Council elected by their membership. These two groups manage the work of the Profession jointly through the Faculty and Institute Management Committee, to which a number of committees dealing with the key areas of actuarial practice report: life assurance, pensions, general insurance, finance & investment and social policy. Other committees deal with education, continuing professional development, professional standards and communications.

1.21 The Profession's role in relation to education and regulation will be considered later on in this paper but comment is invited on the other three aspects of the Profession's role listed above and on the Profession's corporate governance structure.

Questions

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?

ENTRY INTO THE PROFESSION

1.22 The Profession is the qualifying body for actuaries in the UK. Qualification as a Fellow of the Institute or Faculty is achieved primarily by passing a set of exams, which address the theory of actuarial techniques and their practical application in areas where actuarial skills are brought to bear. In addition, trainee actuaries must also complete three years of practical actuarial work and also, for membership of the Institute, must be over 23 years of age, and must complete a professional ethics course within one-year of qualification.³

1.23 To become an actuarial trainee and enter the Profession, it is common practice for students to join a company that takes on actuarial trainees each year and sponsors them through their Professional exams. According to information available on the Profession's website, the majority of students tend to be recruited by actuarial consultancies and insurance companies (each about 25 in number).⁴ The consulting actuaries are the biggest recruiters, the top six taking on approximately 300 graduates per year between them, while the top six recruiting insurers absorb fewer than 50 trainee actuaries annually in total.^{5 6}

1.24 Most students who enter the Profession have graduated in numerate disciplines. Table 1.1 shows that of the 1,295 new students that joined the Profession in 2002, 872 (or two-thirds) had degrees with elements of mathematics, statistics, economics, physics and actuarial science.⁷

Table 1.1: Top 10 degree subjects studied by new entrants in 2002

Subject	Number of new entrants to Profession
Mathematics	350
Actuarial science	198
Mathematics and other	89
Mathematics and statistics	53
Economics	43
Statistics	29
Physics	31
Actuarial mathematics and statistics	30
Actuarial science and statistics	26
Mathematical science	23

³ Source: An Introduction to the Actuarial Profession – prepared for Sir Derek Morris and his Review team by the Actuarial Profession; 14 April 2004.

⁴ Source: www.actuaries.org.uk. Another source of information on actuarial recruitment is Inside Career, published annually on behalf of the Profession by Cambridge Market Intelligence Limited.

⁵ Source: *Ibid.* Figures are for anticipated vacancies in 2003.

⁶ Top six recruiting actuarial consultants with 2003 vacancies shown in brackets: Mercer Human Resource Consulting (90); Watson Wyatt Worldwide (70); Hewitt Bacon & Woodrow (50); PricewaterhouseCoopers (30); Aon Limited (25-30); Deloitte & Touche (20). Top six recruiting insurers with 2003 vacancies shown in brackets: Standard Life Assurance Company Limited (10); Norwich Union/Aviva plc (up to 8); Royal & Sun Alliance Insurance Group (5-10); Liberata UK Limited (7); Prudential plc (6); Scottish Widows (6).

⁷ Source: www.actuaries.org.uk.

1.25 New entrants to the Profession have attended a range of educational establishments. Table 1.2 lists the top 10 universities attended (for degrees only by new entrants in 2002) which accounted for 35% of new entrants.⁸

Table 1.2: Top 10 universities attended (for degrees only) by new entrants in 2002

University	Number of new entrants to Profession
Oxford	65
Cambridge	64
Warwick	60
Heriot-Watt	51
Nottingham	45
London School of Economics	40
Manchester	38
Durham	31
Bristol	30
Dublin (University College)	29

1.26 However, the figures in tables 1.1 and 1.2 are for new entrants to the Profession and do not necessarily reflect the educational backgrounds of those actuaries who go on to qualify. This is because of the relatively high exam failure rate and the fact that a number of students decide to pursue alternative career paths each year.

1.27 The Profession currently has around 4,100 UK-based students and about 3,100 students in 80 other countries. In addition there are around 430 Associates having passed the specialist technical exams, which entitles them to vote in some, but not all, Institute and Faculty affairs. About 200-300 students qualify as actuaries each year - on average it will have taken them about 6 years to do so, although some will qualify more quickly and others will take considerably longer than this.

1.28 Actuarial tuition is made available by the Profession through a contract it has with The Actuarial Education Company (ActEd), a subsidiary of BPP Professional Education. The Profession sets ActEd's prices and monitors the quality of the tuition it provides.

Recent developments

1.29 The current qualification syllabus dates back to 1999 but it has recently been reviewed and a new syllabus will come into effect from April 2005. It will be in four parts:

- ⌘ *core technical* – eight subjects including economics, financial mathematics, and financial reporting;
- ⌘ *core applications* – three subjects covering the application of actuarial concepts solving practical problems, data modelling and communicating actuarial concepts to non-technical people;
- ⌘ *specialist technical* – students must take two subjects from a menu of six, including life assurance, general insurance, pensions and investment; and

⁸ Source: www.actuaries.org.uk.

⌘ *specialist application* – one problem-solving (UK-specific) paper on a subject chosen from the same menu as the specialist technical.

I.30 Details on the proposed new syllabus are available on the Profession's website.⁹

Questions

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?

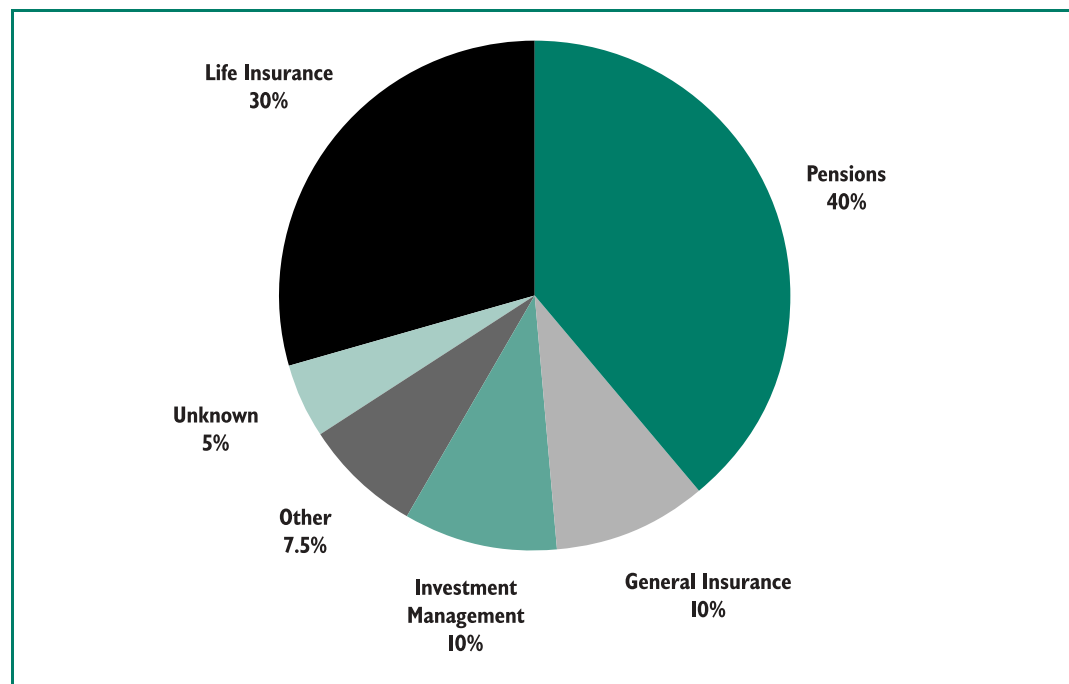
Q1.21 Is it of concern that, apart from a few universities that offer degrees in actuarial science, there is only a single provider of actuarial education in the UK?

⁹ Source: *Ibid.*

THE MARKET FOR ACTUARIAL SERVICES

1.31 An estimated 8,600 individuals are employed in the UK actuarial services market, of which 4,500 are fully qualified and 4,100 in the process of acquiring their actuarial qualifications.¹⁰ Chart 1.1 shows the approximate split of the Profession's 4,500 UK practising members by industry sector in 2003.¹¹

Chart 1.1 Proportion of practising qualified actuaries in the UK by industry



1.32 There are a great many providers of actuarial services in the UK, ranging in size from single office sole practitioners and partnerships which specialise in particular services, to a handful of much larger players which operate out of many different offices and offer a wide range of services. For example, the Association of Consulting Actuaries' 1,300 members are drawn from over 80 firms.¹² Table 1.3 lists the ten largest employers of UK-based Institute and Faculty Fellows.¹³ The figures are indicative only as they exclude other UK-based members of the Profession and UK-based overseas actuaries with no attachment to the Profession.

¹⁰ Source: An Introduction to the Actuarial Profession – prepared for Sir Derek Morris and his Review team by the Actuarial Profession, 14 April 2004.

¹¹ Source: *Ibid.* It should be noted that the chart does not include the Profession's 4,100 UK-based students.

¹² Source: www.aca.org.uk.

¹³ Source: Figures derived from The Actuarial Directory 2004. Figures exclude student and Associate members of the Profession, UK-based overseas actuaries that are not members of the Profession and companies that did not contribute to the Actuarial Directory.

Table I.3: Top ten employers of UK-based Institute/Faculty Fellows

Employer	Numbers employed
Watson Wyatt LLP	280
Mercer	230
Hewitt Bacon & Woodrow	200
Norwich Union Group/Aviva plc	150
PricewaterhouseCoopers	140
Aon Ltd	130
Standard Life	115
Legal & General Assurance Society	80
Prudential	80
Lane Clark & Peacock LLP	70

I.33 Definitive market share figures for firms that provide actuarial services in the UK are difficult to obtain, given the varying roles and coverage of firm activities. Nevertheless, the information on market shares in the actuary-dominated investment consultancy market produced for the Myners Review of Institutional Investment indicated that there was a significant degree of concentration in that market.¹⁴ For example, estimates prepared for Myners suggested that four consultancies - Watson Wyatt, William Mercer, Bacon & Woodrow and Hymans Robertson – between them held over two-thirds of the investment consultancy market in 1999 as measured by client numbers.¹⁵ The Myners Review also found that there was little switching between providers of investment advice and that margins were slim. The review notes that the investment consulting market represents only a small proportion of the wider market for actuarial services.

I.34 This review is keen to understand the forces that drive the wider market for actuarial services in the UK, the degree of choice in the market and the extent to which information about the roles, responsibilities and working practices of actuaries is available to the consumers of actuarial services in the UK.

¹⁴ Source: Institutional Investment in the UK: A Review by Paul Myners for HM Treasury, 6 March 2001, chapter four.

¹⁵ Source: *Ibid.* Page 65.

Questions

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?

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?

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?

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?

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?

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?

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?

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?

INTERNATIONAL COMPARISONS

1.35 The Profession plays a leading role in the world actuarial scene, and participates in the International Actuarial Association (IAA) and the Groupe Consultatif (of Actuarial Associations in Europe). Of the IAA's 38,293 members, approximately 43% are resident in the USA, 15% in the UK, 23% in the rest of Europe and 19% in the rest of the world.¹⁶ This distribution reflects in part the breadth and depth of the financial services sectors in the USA and the UK and it is perhaps significant that about a third of UK Fellows live and work outside the UK.

1.36 Mutual recognition agreements have been agreed with the other major European actuarial bodies (reflecting EU directive provisions for mutual recognition) and with the Society of Actuaries in the USA, the Canadian Institute of Actuaries and the Institute of Actuaries in Australia, and there are arrangements for Fellows of these bodies to work in other parts of the world.

1.37 In preliminary meetings, the review has been told that the Canadian, Australian and, particularly in regard to standard-setting, the US, actuarial professions are well-regarded and may provide us with lessons on which to draw. Equally, there have been

¹⁶ Source: International Actuarial Association. The figures are for qualified actuaries so exclude trainees.

high-profile reviews in these jurisdictions, for example HIH Insurance in Australia, from which lessons about the roles of actuaries could be learnt.¹⁷

I.38 There are references to actuaries and actuarial principles in various European directives and international standards. For example, insurance accounting and pensions directives require technical provisions for life insurance and pensions to be determined by “an actuary” or other “specialist in this field” on the basis of recognised “actuarial methods.”¹⁸ The use of reserved roles for actuaries varies internationally.¹⁹ For example, France and Spain do not have a recognised actuary role in insurance, whereas countries like Italy and Australia have introduced a recognised actuary role for general insurance as well as life assurance.

Questions

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?

OTHER PROFESSIONS

Accountancy

I.39 Recent developments in the Accountancy Profession have resulted in a unified and independent regulator: the Financial Reporting Council (FRC). Its objectives are:

- €# *to set, monitor and enforce accounting and auditing standards;*
- €# *to oversee the regulatory activities of the professional accountancy bodies and regulate audit; and*
- €# *to promote high standards of corporate governance.*

I.40 The FRC oversees the professional accountancy bodies with respect to their supervisory functions and they are also subject to the statutory framework under the Companies Act. The professional accountancy bodies regulate their members in relation to matters such as qualifications, monitoring, complaints and discipline, thus requiring them to observe appropriate regulations and byelaws, including a code of ethics.

¹⁷ Source: Royal Commission Review of HIH Insurance in Australia, published 16 April 2003.

¹⁸ Source: Council Directive 91/674/EEC of 19 December 1991 on the Annual Accounts and Consolidated Accounts of Insurance Undertakings and Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision.

¹⁹ Source: International Association of Insurance Supervisors, The Use of Actuaries as part of a Supervisory Model, Guidance Paper No. 7, approved in Singapore 3 October 2003.

Questions

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?

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

Law

1.41 In July 2003, a government report following the consultation "In the public interest?" concluded that the legal services regulatory framework in England and Wales (described as a "regulatory maze" of 22 regulators) was out-dated, inflexible, over-complex and insufficiently accountable or transparent and had limited capacity to adapt to a rapidly changing landscape.²⁰ The Government therefore asked Sir David Clementi to lead a review to consider the issues which had been raised.

1.42 The Clementi Review consulted on the objectives and principles of a regulatory framework before considering the appropriate nature, role and extent of regulation of legal services.²¹ As part of his proposals he put forward several regulatory models for the legal profession which he illustrated by reference to the framework of the FSA, the accountancy profession, and the medical profession. The Clementi Review also considered the current systems for complaints and discipline, governance and accountability, and evidence of regulatory gaps.

The legal profession has itself implemented a number of recent changes, for example, the Law Society recently introduced lay members onto its governing body.

Questions

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

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

²⁰ Source: www.dca.gov.uk/consult/general/oftreptconc.htm

²¹ Source: www.legal-services-review.org.uk

2

THE CURRENT REGULATORY FRAMEWORK OF THE ACTUARIAL PROFESSION

THE REGULATORY ROLE OF THE PROFESSION

2.1 The Profession shares regulatory responsibility for the work of actuaries with two main statutory regulators, the Financial Services Authority (FSA) and the Occupational Pensions Regulatory Authority (Opra).

2.2 The Profession regulates its members as individuals. The regulatory power derives from the individual contracts that exist between each member and the professional body they have joined. The Profession has no power to regulate firms or partnerships, except in relation to investment business and then only in the case of those firms which are regulated by the Institute as a designated professional body under the Financial Services and Markets Act (FSMA), rather than by the FSA.

2.3 In conducting the review the following aspects of the regulatory framework will be considered:

- ⌘ the scope of the actuarial role;
- ⌘ maintenance of professional competence;
- ⌘ standard-setting;
- ⌘ openness, peer review and audit of actuarial work; and
- ⌘ monitoring, complaints and disciplinary procedures.

2.4 Before proceeding into detailed lines of questioning on each of the above areas, the review would like to provide respondents with an opportunity to give their views on some of the broader questions around the strengths and weaknesses of a self-regulatory regime.

Questions

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

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?

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?

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?

SCOPE OF ACTUARIES' STATUTORY OR RESERVED ROLES

The role of the Appointed Actuary

2.5 Under existing FSA rules, each life insurer is required to have an Appointed Actuary. The Appointed Actuary has five main responsibilities:

- ⊘ to identify and monitor the risks the firm runs, in so far as these may have a material impact on its ability to meet policyholder liabilities;
- ⊘ to inform the firm's management of any concerns over whether the firm is able to meet its liabilities to policyholders and the adequacy of premium rates;
- ⊘ to carry out actuarial investigations prior to transfers being made out of the long-term insurance fund for use elsewhere in the business;
- ⊘ to carry out an annual valuation of the firm's policyholder liabilities; and
- ⊘ to provide a public certificate in the firm's annual return.

2.6 The Appointed Actuary must also identify and monitor any risks run by the insurer which may impact on the firm's ability to meet its liabilities. Appointed Actuaries thus advise on the distribution of any surplus between different classes and generations of policyholders.

2.7 Lord Penrose argued in his Inquiry into the Equitable Life that too much reliance has been placed on Appointed Actuaries within life insurers, particularly in relation to audited accounts. He also recommended that Appointed Actuaries should be banned from also holding office as chief executive.

"...the system placed too great a reliance on the appointed actuary in practice...". (Penrose 19.155)

"The auditor has been in some instances over reliant on the appointed actuary (and indirectly on the actuarial profession's standards and guidance)...". (Penrose 19.148)

Recent developments

2.8 The Appointed Actuary role is to be discontinued at the end of 2004. The new regime is currently being finalised by the FSA and is likely to result in three actuarial roles being distinguished:

- ⊘ *Actuarial Function Holder* who will provide actuarial advice to the insurer's board on the methods and assumptions for the actuarial investigation and on the risks being run by the insurer and its capital requirements;
- ⊘ *With-Profits Actuary* who will provide actuarial advice to the insurer's senior management and a report to the board on their exercise of discretion with respect to the insurer's with-profits business, if applicable; and
- ⊘ *Reviewing Actuary* who will be external to the insurer and retained by the auditor to advise on the insurer's calculation of its liabilities and related matters.

2.9 The new regime emphasises that responsibility for decision-making rests with insurers, rather than with the Appointed Actuary, while also requiring insurers to prepare “realistic” regulatory reports which present risk-based capital in a more easily recognisable and comparable form.¹ The FSA will extend the scope of the auditor’s opinion to include the actuarial assessment of insurers’ liabilities, both for solvency purposes and on the new realistic reporting basis.

2.10 The FSA’s new rules will require firms to ensure that the actuarial function-holder and with-profits actuary do not act as Chairman or Chief Executive, or hold any other role involving a significant conflict of interest. The with-profits actuary will be specifically prohibited from being on the insurer’s governing body.

2.11 The review recognises that the FSA had already conducted a significant consultation in developing these proposals before Lord Penrose reported. The review would therefore like to establish whether the FSA’s proposals address the criticisms that Lord Penrose raised about the over-reliance on the Appointed Actuary regime and the lack of scrutiny of actuarial opinions or whether there is a need to consider further changes.

Questions

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?

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

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?

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

The role of the Scheme Actuary

2.12 Just over half of all pension actuaries hold appointments as Scheme Actuaries in addition to providing other (non-statutory) advice to their clients. The Pensions Act 1995 sets out the responsibilities of the Scheme Actuary, including the triennial valuation of assets and liabilities (reporting to the scheme’s trustees), various statutory certificates and/or reviews (e.g. certification of contribution rates and minimum funding levels and in relation to scheme mergers) and the calculation of certain benefit terms.

2.13 The Pensions Act 1995 gave the Scheme Actuary a statutory role in terms of the requirement for an actuarial valuation, but it also imposed a specific minimum funding requirement (MFR), based on a prescribed method of calculation. This meant that so far as the MFR valuation is concerned, the Scheme Actuary’s role became more mechanical.

¹ Source: FSA consultation paper (CP)195 Enhanced capital requirements and individual capital assessments for life insurers.

2.14 Scheme Actuaries advise pension fund trustees on scheme design, scheme funding, investment strategy and the level of risk associated with different funding strategies. As currently defined the role of Scheme Actuary is an extremely important role. This raises issues about the extent to which trustees have the expertise or the information to challenge the advice given by the Scheme Actuary and whether there is an appropriate degree of openness and scrutiny of the work of Scheme Actuaries.

Recent developments

2.15 The Pensions Bill currently going through Parliament will remove the minimum funding requirement. Instead, pension scheme trustees will be required to agree with the employer a strategy for funding the pensions commitments and for correcting funding deficits, with the Scheme Actuary required to provide the trustees with a periodic valuation. The review is not seeking views specifically on the proposals in the Pensions Bill itself, which have already been the subject of extensive consultation and debate. However, we would like to hear about any implications for the regulatory role of actuaries in pensions.

Questions

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

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?

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?

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?

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?

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?

General insurance and the role of the Syndicate Actuary

2.16 Few actuaries working in UK general insurance have any formal statutory role. However, in practice most general insurers take advice from an actuary in relation to their regulatory returns. Of the 400 actuaries who work in general insurance only 50 perform the reserved role of Syndicate Actuary: a role which exists because Lloyd's syndicates undertake some life business. Syndicate Actuaries are required to provide a

Statement of Actuarial Opinion on reserves in relation to Lloyd's syndicates.² Most Syndicate Actuaries are employed as consultants. The Society of Lloyd's must also have its own actuary, the Lloyd's Actuary, to advise it on its overall regulatory returns.

Recent developments

2.17 The FSA is currently consulting on changes to Lloyd's rules so that Syndicate Actuaries must be appointed under FSA rules and to make the Lloyd's Actuary a controlled function, requiring FSA approval.³

2.18 The FSA is also introducing a more realistic risk-based approach to establishing capital within general insurance companies. This new regime will require management to undertake a risk assessment across the whole spectrum of the insurer's operations to determine capital requirements.

Questions

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

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

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?

Investment

2.19 There are no reserved roles for actuaries working in institutional investment. However, as the Institute is a designated professional body under FSMA, actuarial firms carrying on certain investment activities incidental to their professional services are eligible to be regulated by the Profession rather than by the FSA.

Questions

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?

MAINTENANCE OF PROFESSIONAL COMPETENCE

Regulatory approval and practising certificates

2.20 For all statutory roles there is a regulatory requirement for actuaries to be Fellows of the Faculty or Institute or, in the case of Syndicate Actuaries, a similar recognised body. In addition, the FSA requires firms to satisfy themselves that an appointed actuary has the required skills and experience. As a controlled function this appointment is subject to FSA approval.

² Source: Lloyd's Valuation of Liability Rules.

³ Source: CP 04/7 Lloyd's: integrated prudential requirements, and changes to auditing and actuarial requirements.

2.21 The Profession also requires actuaries to have a practising certificate before they can perform the roles of Appointed Actuary, Scheme Actuary and Syndicate Actuary.

Continuing professional development (CPD)

2.22 A minimum level of CPD is compulsory (and monitored) for actuaries who hold a practising certificate entitling them to act as an Appointed Actuary (life assurance), Scheme Actuary (pensions) or Syndicate Actuary (general insurance at Lloyds).

2.23 The minimum level is 15 hours per year of “formal CPD” plus one hour per week of “informal CPD” where formal CPD is participation in courses, professional meetings or other formal events, and informal CPD is any other activity of professional development such as reading, training, teaching etc.

Recent developments

2.24 The Profession is considering a proposal to extend the concept of practising certificates to cover all actuaries who give advice on actuarial matters. The proposal envisages that revalidation of the new practising certificates for non-statutory roles should take place every five years, with revalidation for statutory roles continuing to be required every year. It is envisaged that as part of the revalidation of practising certificates, all actuaries qualifying after April 2005 will have to pass an exam in UK legislation and regulation (and professional regulation) relevant to their area of practice.

Questions

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?

WHISTLE-BLOWING

2.25 Actuaries performing statutorily defined roles are subject to various provisions permitting them, and in some cases requiring them, to disclose specified matters to regulators, either the FSA or OPRA as appropriate, in order to protect the public interest. These matters include:

- ⚡ Appointed Actuaries, and other actuaries performing senior management roles (known as controlled functions) e.g. acting as a director, for an FSA-authorized firm require approval by the FSA and are subject to the FSA's statements of principle and code of conduct for approved persons. These require approved persons to report in accordance with their firm's procedures any information of which the FSA would reasonably expect notice;

- €# Scheme Actuaries are required to report to Opra if they have reasonable cause to believe that any relevant duty has not been complied with and the failure to comply is likely to be of material significance; and
- €# Appointed Actuaries, Appropriate Actuaries and Scheme Actuaries have statutory duties to notify the regulator of any termination of their appointment and any relevant circumstances relating to the termination. They also have statutory relief from duties of confidentiality when reporting any matter arising from their work if they act in good faith and reasonably believe that it is relevant to the regulator's functions.

Recent developments

2.26 Since September 2003, Treasury regulations have required the Appointed Actuary and Appropriate Actuary to "whistle-blow" to the FSA in prescribed circumstances e.g. where the actuary reasonably believes there has been a breach of FSA rules, or that an insurer may be insolvent, or that there may be or have been a failure or inability to take proper account of the interests of policyholders.⁴ The FSA has told the review that ten such reports have been received so far under these regulations, which will extend to the new actuarial function holder and with-profits actuary roles as well as the Lloyd's actuary. The Profession has issued guidance to actuaries who may be subject to these regulations.⁵

2.27 Under the Pensions Bill, whistle-blowing will be supplemented by regular reports and information gathering powers for the new Pensions Regulator. In addition, Opra has recently revised its guidance to introduce a "traffic light" system which raises the threshold to make clear that only breaches which are considered materially significant are expected to be reported to it.⁶ Opra has told the review it believes that in the year to 31 March 2004 this change and Opra's new risk-based approach have roughly halved the 1,000 or so reports it received from actuaries in the year to 31 March 2003.

Questions

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?

⁴ Source: Statutory Instrument 2003/1294.

⁵ Source: GN37 The Financial Services and Markets Act 2000 (Communications by Actuaries) Regulations 2003.

⁶ Source: Opra Note 1 on Pensions Act 1995 section 48(1).

STANDARD-SETTING

The Profession's regulation consists of codes or standards, covering both ethical and technical matters which are set out in the Profession's Manual of Actuarial Practice (MAP).⁷ The MAP is in three sections:

1. the ethical code, known as the professional conduct standards which sets out general ethical standards which apply to all actuaries;
2. the 35 technical standards known as guidance notes which apply to specific areas of actuarial work; and
3. a formal due process for approving or amending professional guidance.

Lord Penrose argued that actuarial professional standards are insufficiently developed and that professional guidance has been slow to keep pace with events, for example, on policy-holders reasonable expectations and reserving for annuity guarantees; this has left considerable scope for discretion by individual actuaries.

"In the course of this report I have commented on what I have found to be deficiencies in the specification of standards of practice. I have commented on the lack of standards relating to managing policyholders' reasonable expectations...I have referred to the failure to promulgate appropriate standards for valuing guarantees." (Penrose 20.63)

"Professional bodies that confer privileges on their members have corresponding obligations to ensure that there are sufficient and effective professional standards by which to measure members' performance of their duties to their clients and the public. Recognising the idiosyncratic practices of individual members is not an acceptable substitute for a definition of generally acceptable professional principles or practices...The inability of a professional working party to identify and describe an 'entirely satisfactory' approach to the actuarial computation of the resulting liabilities at the end of the century is remarkable. Whatever else it demonstrates, it is proof of a failure to consider and resolve the issue over decades during which policyholders' contributions were taken... and actuaries advised life offices, and appointed actuaries certified regulatory returns, without their professional bodies addressing the need for standards or for guidance relevant to the treatment of attendant liabilities." (Penrose 17.8)

"The profession resisted prescription. The individual judgment of the appointed actuary prevailed. But it did so in a context in which the profession had failed to adopt any generally acceptable professional understanding of what policyholders' reasonable expectations might comprise and how they might be generated and tested. Formation of a general rule of practice or a generally accepted standard for the recognition of accrued final bonus in particular was avoided." (Penrose 13.101)

⁷ Source: www.actuaries.org.uk.

Recent developments

2.28 The concept of Policyholders Reasonable Expectations (PRE) has been replaced, under FSMA, by the FSA principle of Treating Customers Fairly. The FSA has recently consulted specifically on the application of this principle to with-profits policies.⁸

2.29 The Profession has informed the review that it is developing a proposal to introduce an actuarial standards board to introduce greater independence in the standard-setting process. The board would contain a majority of independent members and would oversee the process of setting professional and technical guidance to actuaries.

Questions

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?

Q2.28 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?

OPENNESS, PEER REVIEW AND AUDIT OF ACTUARIAL WORK

2.30 Lord Penrose argued that actuaries have at times not communicated their work in a clear and comprehensible manner so that lay people can understand it, which has consequences for corporate governance, regulation and the audit profession.

"It appears to have been a particular conceit of the actuaries that the exercise of discretion was as much their exclusive preserve as the arithmetic that instructed it. In general it is the defining characteristic of an expert that he or she can communicate the results of his or her expertise with sufficient clarity to enable any reasonably intelligent person vested with a decision making power effectively to exercise that power. Actuaries need not be in an exceptional position in this respect, and life offices' boards can be as competent as others to reach decisions on the basis of intelligible advice." (Penrose 9.181)

⁸ Source: CP207 Treating with-profits policyholders fairly.

“Allowing one professional, the auditor, to express a view about the assets and peripheral liabilities, but excluding him from the long-term liabilities, while allowing another professional, the actuary, independently to certify the liabilities is like commissioning the two legs of a pair of trousers from separate tailors.” (Penrose 20.47)

2.31 Lord Penrose also asked whether actuaries should be required to provide a joint opinion with auditors, although he concluded that this would be a “step too far at this stage.”

“The valuation of a life office’s liabilities, and of any additional provisions that might be required for accrued terminal bonus, for example, are so fundamental to any assessment of the company’s financial position that, if audit cannot be comprehensive, there is a case for a direct report to shareholders and policyholders by an actuary, on the face of the accounts and in parallel with the audit report.” (Penrose 20.49)

2.32 Penrose argued that the Profession’s guidance and rules make actuaries slow to challenge or criticise their fellow actuaries, in particular Appointed Actuaries.

“The appointed actuary was under an obligation to report to the regulator if circumstances demanded it. But other actuaries, including those on the Board, were inhibited by professional rules from undermining the authority of the appointed actuary.” (Penrose 9.178)

Recent developments

2.33 The FSA’s changes to the Appointed Actuary regime will, subject to the outcome of the FSA’s recent consultation, introduce the concept of a Reviewing Actuary who will be external to the insurer and retained by the auditor to advise on the insurer’s calculation of its liabilities and related matters.⁹

2.34 The with-profits actuary’s report on the exercise of the insurer’s discretion will be provided to policyholders: this is to increase transparency and hence the quality of with-profits products, while providing firms with an additional incentive to take policyholders’ interests into account.

2.35 The Profession has informed the review that it has plans to introduce peer review for some actuarial work. The initial plans for peer review in life assurance are being modified in the light of the FSA’s proposed changes to the Appointed Actuary regime. An exposure draft on peer review in pensions work was issued by the Profession in February 2004, with the proposal that all written advice provided by a scheme actuary, when they are advising within that capacity and are subject to certain practice standards guidance notes, should be subject to either peer review or audit review.

⁹ Source: CPI95 Enhanced capital requirements and individual capital assessments for life insurers; CPI67 With-profits governance, the role of actuaries in life insurers, and certification of insurance returns and CP202 Insurance regulatory reporting: changes to the publicly available annual return for insurers

Questions

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?

MONITORING, COMPLAINTS AND DISCIPLINARY SCHEMES

2.36 Both the professional bodies operate a disciplinary scheme and since 1 January 2004 the two schemes have effectively operated as one. The administration and management of the schemes have been removed from the control of the Councils of each professional body, although as a matter of law, the disciplinary process is still a function of the professional body. A disciplinary investigation is initiated whenever there is a complaint whether by another actuary or by someone outside the profession.

2.37 According to the Profession there have been 17 complaints referred for tribunal hearings over the past 15 years, of which 11 have been reported during the past 3 years. The 17 complaints led to 16 findings of misconduct: four of the findings resulted in a fine in excess of £500, one in suspension of the member's practising certificate and five in suspension from membership. One member's misconduct was found serious enough to have warranted expulsion.

2.38 Many actuaries also have regulatory responsibilities under financial services and pensions legislation, and may therefore be subject to investigation or discipline by the FSA or Opra. For example, through FSA supervision of life insurers the work of Appointed Actuaries is subject to review, and in the event of misconduct the FSA may discipline the Appointed Actuary or pass on a complaint to the Profession. Opra tends to act as a result of whistle-blowing reports and complaints, which are then referred to the Profession. In recent years the majority of complaints dealt with by the Profession have been referred by Opra.

2.39 Lord Penrose argued that the disciplinary process continues to be reactive rather than proactive, which is inappropriate in a market where products and advice are long-term in nature and where users of actuarial services have less information than advisers.

"In the past disciplinary procedures have typically been reactive to complaints...It is not enough for the profession to await complaints...It would improve the public image of the profession if it were seen to accept responsibility for direct intervention where it was thought that the administration of life funds was likely to threaten the legitimate interests of policyholders." (Penrose 20.60)

Questions

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?

3

ROLES AND RESPONSIBILITIES OF THE GOVERNMENT ACTUARY'S DEPARTMENT

3.1 The Government Actuary's Department (GAD) is a non-ministerial government department, set up to provide actuarial advice to ministers and departments. Actuaries and administration staff employed at the GAD are civil servants.¹ The GAD is headed by the Government Actuary.

3.2 The GAD's 2004 spring Departmental Report states that its fundamental aim is:²
To provide mainly public sector clients with independent, professional, actuarial advice of the highest quality.

The GAD's main objectives are:³

- €# to offer high quality client-oriented service to clients at all times;
- €# to maintain the highest standards of professionalism and relevance in the giving of actuarial advice;
- €# to provide clients with value-for-money in the provision of actuarial services; and
- €# to maintain a well-trained and well-motivated staff with up-to-date skills and expertise.

THE GOVERNMENT ACTUARY

3.3 Meeting the aims and objectives above is the responsibility of the Government Actuary assisted by the senior management team. The Government Actuary is appointed by the Chancellor of the Exchequer and approved by the Prime Minister. He is therefore answerable to the Chancellor, through the Financial Secretary to the Treasury, who has ministerial responsibility for the department. As the head of the department, the Government Actuary is also the Accounting Officer. He is, therefore, personally responsible for the overall organisation, management and staffing of the department and for ensuring a high standard of financial management in the department as a whole, as well as for the quality of professional advice given by actuaries in the GAD.

STATUTORY FUNCTIONS

3.4 Although the GAD was not established by statute, there are a significant number of functions in legislation for which the Government Actuary is responsible.

3.5 For example, in accordance with the Social Security Administration Act 1992, whenever National Insurance benefit rates or contribution structures are to be altered by way of an order, ministers must present to Parliament a report by the Government Actuary. If following its annual review of National Insurance contributions the Treasury decides not to make any amendments to contribution levels, the Treasury shall report this decision to Parliament along with a report from the Government Actuary.

¹ Source: Government Actuary's Department spring 2004 Departmental Report. In 2003-2004, the total number of staff is 103: 38 non-actuarial; 32 trainee actuaries; 26 actuaries and 7 senior actuaries.

² Source: *Ibid.*

³ Source: *Ibid.*

3.6 Section 166 of the Social Security Administration Act 1992, provides that at least every five years the Government Actuary must report to the Secretary of State for Work and Pensions and the Treasury on the finances of the National Insurance Fund over the longer term and the Treasury shall lay a copy of this report before Parliament.

3.7 Rates of reductions in National Insurance contributions and rebates for the State Second Pension (S2P) are reviewed at least every five years. In making proposals to UK Parliament for the rebate for the next five years, the Secretary of State for Work and Pensions is also required to present to Parliament a report by the Government Actuary on the proposed rates of reductions and rebates.⁴

3.8 Subject to any regulations made under section 6(1) of the Ministerial and other Pensions and Salaries Act 1991 the amount of contribution to be paid into the Parliamentary Contributory Pension Fund from the Exchequer shall be calculated in accordance with recommendations in a report made under this section by the Government Actuary.⁵

3.9 In addition, every 3 years the Government Actuary shall provide the trustees of the Parliamentary Contributory Pension Fund and the Treasury with a report setting out the general position of the fund, including a recommendation as to the rate at which Exchequer contributions should be paid into the Fund. Copies of every report made by the Government Actuary under section 3 of the Parliamentary and other Pensions Act 1987 are to be laid before the House of Commons.

3.10 The Teachers' Pensions Regulations 1997 (as amended by the Teachers' Pensions (Amendment) Regulations 2002) require the Government Actuary to carry out an actuarial review of the Teachers' Pension Scheme at least once every five years and the Government Actuary provides actuarial reviews of the NHS pension scheme once every five years in accordance with Regulation U3 of the National Health Service Pension Scheme Regulations 1995.^{6 7}

CORE FUNCTIONS

3.11 The GAD delivers some 'core' functions, which are not attributable to a single client. These are national life tables, population projections (with associated demographics) and occupational pension scheme surveys.

3.12 Population projections are produced by the GAD for the United Kingdom and constituent countries, mainly by age and sex. These projections are normally prepared every second year. The main focus of the projections is on the first 25 years but projections are prepared for a period of 70 years, mainly for use in the context of the Government Actuary's statutory responsibilities to report on the finances of the National Insurance Fund.⁸

3.13 The GAD produce occupational pension scheme surveys which determine the extent to which employees in the United Kingdom are covered by occupational pension schemes and analyse the nature of the benefits provided, the contributions paid and other pension topics of interest to the government, employers and employees. These

⁴ Source: ss42B and 45A of the Pensions Act 1993 (as amended by the Child Support, Pensions and Social Security Act 2000).

⁵ Source: s.3 of the Parliamentary and other Pensions Act 1987.

⁶ Source: Statutory Instrument 2002 No. 3058.

⁷ Source: Statutory Instrument 1995 No 300.

⁸ Source: GAD's website: www.gad.gov.uk.

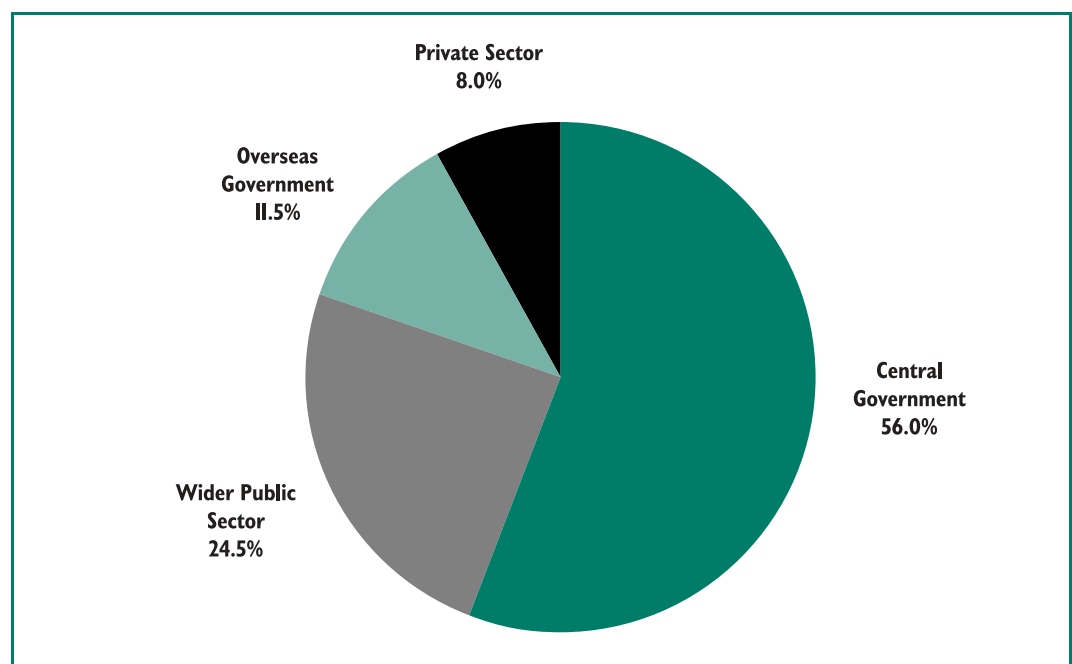
have been carried out in the UK every four to five years but in the recent review of pension statistics it was recommended that the surveys should become annual, covering different subject areas in each year of a three-year cycle.^{9 10}

OTHER ADVICE WORK

3.14 The GAD provides the majority of its actuarial services to the public sector, but also provides services to the private sector and overseas clients. The largest concentration of advice to a single client was, for a period in the 1980s and 1990s, actuarial advice to the supervision of insurance companies. This, function was taken in-house at the Financial Services Authority on 26 April 2001.

The chart below illustrates the breakdown of fee income earned in 2003-2004 for GAD.

Chart 3.1 – Breakdown of fee income earned by GAD 2003-2004



3.15 The table below highlights the developments in fee income for the GAD over the last 4 years, illustrating the decrease of work for central government clients as a result of the transfer of actuarial advice for insurance supervision to the FSA and the increase in work for non-UK public sector bodies.¹¹

⁹ Source: *Ibid.*

¹⁰ Source: Occupational Pension Schemes Survey: Review following the September 2002 Report "Review of ONS Pension Contributions Statistics." This can be found at: www.gad.gov.uk

¹¹ Source: Spending Review 2000: Review of the future financial viability of the Government Actuary's Department.

Table 3.1 – A comparison of the GAD's fee income 2000-2001 to 2003-2004

	2000-2001 (%)	2003-2004 (%)
Central Government	75	56
Wider Public Sector	15	24.5
Overseas Government	5	11.5
Private Sector	5	8

3.16 The GAD's main areas of activity in providing actuarial advice to the UK public sector are:

- £# Pensions;
- £# Demography; and
- £# Social Insurance.

3.17 Internationally, the main activities are social insurance; pension reform; and pension and insurance regulation.¹²

3.18 The GAD also gives advice in life and general insurance, investment and the financing of health care.¹³

FEE-CHARGING

3.19 Since 1989, a full repayment regime has been introduced for all of the GAD's clients. The charges must meet the full cost of the advice. The GAD still receives a vote from Parliament to deliver the 'core' activities outlined above. In 2004-05, the GAD has Parliamentary approval to receive fee income up to £8,827,000 and will receive Parliamentary funding totaling £1,309,000 towards the cost of the 'core' activities.¹⁴

RATIONALE FOR THE GAD

3.20 The original rationale for a GAD when it was established in 1919 is echoed in the GAD's spring 2004 Departmental Report and the 2000 report on the future financial viability of the GAD.^{15 16} In these reports the GAD explains the rationale as being to:

1. offer **independent** actuarial advice to government departments, Ministers and the wider public sector, free of commercial pressure;
2. offer **confidentiality** on sensitive political or commercial issues;
3. deliver advice across the public sector giving **consistency** of opinion – this is particularly important in relation to the public service pension schemes;
4. offer **value-for-money** to customers in the fee structure used;

¹² Source: Government Actuary's Department Annual Report 2002-2003.

¹³ Source: *Ibid.*

¹⁴ Source: Main estimate 2004-2005 Government Actuary's Department for the Government's Expenditure Plans.

¹⁵ Source: Government Actuary's Department Spring 2004 Departmental Report.

¹⁶ Source: Spending Review 2000: Review of the future financial viability of the Government Actuary's Department.

5. provide a **cost effective** government actuarial service with a strong professional ethos;
6. provide advice that is **not driven by a profit motive**;
7. provide advice with **no conflict of interest** created by the interests of private sector clients;
8. provide an in-house source of **readily available** advice;
9. bring **knowledge of the ways of government** and how advice should best be formulated and presented by being civil servants; and
10. give advice that is **not influenced by a wish to sell other services**.

THE CASE FOR REVIEWING THE GAD AND THE GOVERNMENT ACTUARY

3.21 The landscape in which the GAD's actuarial services are provided is changing. For example:

⚡ Lord Penrose raised a number of issues about the role of the GAD in his report of the Equitable Life inquiry;

“There was a general failure on the part of the regulators and GAD to follow up issues that arose in the course of their regulation of the Society, and to mount effective challenge of the management.”(Penrose 19.240)¹⁷

“The scrutiny system was slow, and its results emerged late relative to periods under review...Successive GAD actuaries did identify relevant issues, but consistently these were not followed through and were allowed to evaporate. No problem was considered so serious that it could not be left until next time.” (Penrose 19.221)¹⁸

⚡ however in 2001, GAD's work in advising on insurance regulation in the UK passed across to the FSA, and GAD no longer plays any role in advising on insurance supervision in the UK;

⚡ the Pensions Bill currently in Parliament may redefine the actuarial work needed by the Occupational Pensions Regulatory Authority and will introduce new actuarial requirements for the Pensions Protection Fund;

⚡ the imminent merger of the Inland Revenue and HM Customs and Excise may lead to changes in the GAD's workload; and

⚡ with the transfer of work to the FSA, the GAD's work for the wider public sector within the UK has decreased, from 90% in 2000 to 80.5% currently as a percentage of total fee income.¹⁹

¹⁷ Source: *Ibid.*

¹⁸ Source: *Ibid.*

¹⁹ Source: Spending Review 2000: Review of the future financial viability of the Government Actuary's Department.

Questions

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?

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?

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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?

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?

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?

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?

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

PLEASE NOTE: IF YOU WOULD LIKE YOUR ANSWERS TO REMAIN CONFIDENTIAL, PLEASE STATE CLEARLY.

A

TIMELINE

Phase	Activity	Timing
1. Consultation and information gathering	Consultation with actuarial practitioners, users of actuarial services, GAD's clients, consumer and trade bodies.	Deadline for submissions 10th September 2004
2. Analysis & interim assessment	Analysis of consultation responses and publish interim assessment paper .	Autumn 2004
3. Re-consultation and development of final recommendations	Re-consult key stakeholders to test emerging options and develop recommendations.	Winter 2004
4. Submission of final report to the Government	Submit final report with recommendations to the Government.	Spring 2005

SUMMARY OF 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?

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?

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?

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

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?

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

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?

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?

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?

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

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?

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?

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?

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?

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?

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?

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?

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?

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?

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?

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?

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?

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

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

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

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?

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?

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?

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?

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?

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

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?

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

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?

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?

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?

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?

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?

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?

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?

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

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?

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?

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?

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?

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

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?

Q2.28 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?

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?

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?

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?

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