



Response to Morris Interim Assessment of Actuarial Profession underscores importance of looking at strengths of UK market for actuarial services...

ACA SAYS IT IS IMPORTANT NOT TO ENDANGER COMPETITIVE MARKET FOR ACTUARIAL SERVICES THAT IS MEETING USERS' NEEDS

4 February 2005: The Association of Consulting Actuaries (ACA), the body representing over 1500 actuaries based at 80 firms of consulting actuaries, has agreed in its response to the *Morris Review of the Actuarial Profession: Interim Assessment* paper that the central question is 'how the Profession can ensure efficient delivery of best-practice actuarial services to users'.

The ACA welcomes the fact that the *Interim Assessment* recognises the skills and professional dedication of the '*overwhelming majority of actuaries in the UK*' and the ACA is supportive of the overall thrust of the Morris paper, if not all of the conclusions.

The ACA response says that it is important that the expectation of what users want and are prepared to do in addressing some of the problems identified in the review is realistic. It should be remembered that the very many users of actuarial services - particularly of consulting actuarial services in the pensions sector - often have limited resources. Adding even a small amount of further complexity into relationships with their actuarial advisers may cause more users to turn away from products and services, many of which are discretionary in their nature.

The interim assessment paper accepted that the market for actuarial services was competitive, with evidence of significant entry by small and medium sized independent firms into the market.

"ACA members will support practical and well thought through measures that promote the highest possible standards of advice across the actuarial profession. However, it would be a disaster for all concerned if the review of the Profession, by taking on too much, too quickly, also led onto overly prescriptive reforms that damage the actuarial services market," commented ACA Chairman, Adrian Waddingham.

"It is important that the final recommendations, expected in the Spring of 2005, do not have the effect of reducing competition or adding to costs and complexity

for users, rendering both products and services increasingly beyond the pocket or interest of all but the most sophisticated users".

Key points in the ACA response are:

- the high cost of Professional Indemnity insurance is noted by the review and that this could reduce competition in the sector. The ACA agrees with the review that the wider application of liability caps may afford part of the solution to this problem, alongside other risk control measures being introduced by actuarial firms.
- the interim assessment questioned whether the high incidence of full-service appointments might represent a threat to competition. The ACA notes that users of actuarial services - particularly medium-sized and small firms - could be seriously disadvantaged by any requirements that services offered by consulting actuaries are unbundled. Bundling of services has been market driven and has suited many users, who feel they gain from a more holistic approach from their advisers. In a market where regulatory burdens have considerably added to users' costs over the last decade or so, bundling has offered users the opportunity to negotiate savings by way of these packaged services.
- there are services provided by actuaries to pension schemes such as advice on funding and advice on investment strategy that are best interlocked and performed by those with actuarial skills. The ACA expresses a concern that the interim assessment seems not to appreciate the expertise of actuaries in giving advice on investment strategy and asset allocation to pension schemes.
- the ACA believes that the Scheme Actuary should be able to advise both the scheme sponsor and trustees, unless the actuary or trustees deem there to be a conflict, in which case the Scheme Actuary only advises the trustees. Appointments where the same firm advises trustees and sponsors are well liked by many users. They support the cooperative pensions ethos evident within most sponsoring companies and help to reduce the costs of running schemes. Where conflicts arise they are dealt with by common sense solutions at scheme level.
- the ACA is supportive of initiatives designed to improve user knowledge and understanding, but says there is a need to be realistic as to what can be achieved. The fact that many users have taken advice on trust from their professional advisers should not be viewed as a criticism as many users have limited time, resources or inclination to investigate complex areas for themselves. It is entirely laudable that they should seek a professional relationship where they feel confident in relying upon the advice of a professional actuary. The ACA is also supportive of the wider use of professional trustees, but this should be left to the discretion of schemes.

- the ACA is supportive of initiatives to enhance professional education. The wider provision and accreditation of degrees that grant exemptions from the Profession's exams and the promotion of faster-track qualification is welcomed. However, the ACA is opposed to any lowering in standards to achieve swifter qualification and notes the key importance of on the job training in producing the rounded professionals needed, in particular, by the consulting side of the Profession. The ACA supports the extension of CPD to wider areas and appropriate improvements in monitoring.
- the ACA believes that it would be prudent to introduce a reserved role in general insurance given the success and confidence such a role has achieved in the Lloyd's market.
- it is probably impossible to place a workable 'public interest' duty on individual actuaries that goes beyond his or her contractual relationship with an employer or client, save where clear professional guidance and further clear statutory duties are placed on the individual actuary, including whistle-blowing.
- the ACA is broadly supportive of an independent oversight body for the actuarial profession, particularly in respect of standard-setting. The ACA notes that the review is inclined to this being the Financial Reporting Council (FRC), but that many issues need to be considered before a final decision is taken. The ACA feels any discussions with the FRC should be 'without prejudice' and is supportive of examining simultaneously the pros and cons of an entirely independent oversight body for the actuarial profession.

For the full ACA response to the *Morris Review: Interim Assessment* paper go to www.aca.org.uk ('Policy Statements' button)

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Note to Editors:

The **Association of Consulting Actuaries (ACA)** has over 1500 members working in around 80 firms. Members are advisers to UK pension schemes with assets in excess of £650 billion, including the vast majority of larger schemes and thousands of smaller arrangements. The ACA forms the largest national grouping of consulting actuaries in Europe.

Following the publication of the Penrose Report into Equitable Life, the Government appointed Sir Derek Morris to undertake a review of the Actuarial Profession. His Interim Assessment was published in December 2004 and he is expected to conclude his review in Spring 2005.