ASSOCIATION OF ACA CONSULTING ACTUARIES

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The Quality Assurance Scheme Consultation
The Institute and Faculty of Actuaries
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Dear Sirs

Quality Assurance Scheme for Organisations

I am writing on behalf of the Association of Consulting Actuaries (ACA) in response to the consultation paper issued in May 2013 containing a new policy proposal to introduce a Quality Assurance Scheme for Organisations.

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and are subject to the Actuaries' Code of the Institute and Faculty of Actuaries (IFoA). Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of UK defined benefit pension schemes. ACA members also advise insurance companies, banks and other financial institutions.

The ACA is the representative body for consulting actuaries, whilst the IFoA is the professional body.

We have chosen to respond by letter since the fact that we represent many organisations ranging in size from the biggest employing over 200 fellows to sole practitioner firms means the impact can be much different according to the size of firm.

Overall we welcome the proposals. It is clear from the introduction that there is a perceived need to promote actuarial quality and this has been emphasised by the FRC. In particular we cannot but agree that it is important that members of the public can feel reassured when dealing with actuaries and actuarial firms that they are receiving quality advice. The fact that the IFoA has taken the lead and come up with a set of proposals is to be commended and in many ways it has to be better to participate fully in the design of a quality scheme than have one thrust upon the profession. Nevertheless and to state the obvious the scheme has to work as any shortcomings could reflect badly on the IFoA. Thus we are grateful to be able to input on the scheme and would welcome the opportunity to continue to work with you to bring these proposals into effect.

There are however a number of immediate issues which we would like to highlight, ahead of addressing the questions posed.

First, in consulting with our members it seems pretty clear that the vast majority of firms will wish to apply to become a Quality Assured Organisation. This applies from the largest firms to sole practitioners. The fundamental reason is that from a competitive perspective it will rapidly become a requirement in formal and informal tenders and lack of being recognised will result in not only failure to secure new business but also a catalyst for loss of existing business. Therefore one does become concerned at three levels:

A) If all firms are recognised are the criteria too weak?

B) If all firms are recognised what has been gained in the public eye since it has not provided anything of use in differentiating quality.

C) The actual procedures and practicalities. Is it like an MOT where the firm will be able to submit, if it chooses, for a pre assessment check? If a firm fails can it make the necessary changes and re-submit and are there any time limits on this, especially in the first year?

Second, most of the larger firms would argue that they already operate at a significantly more rigorous level than mere compliance with guidance and codes of conduct. They therefore view this as a recording and audit of their practices and procedures. Nevertheless this will involve significant cost, internal and external which must ultimately be borne by clients or shareholders. One needs therefore to consider whether the public will value the new requirements or merely see this as another layer of costs on what is already perceived to be very expensive advice.

Third, at a practical level with over 80 firms, that we are aware of, who would wish to submit themselves the sheer scale of the initial audit is immense. It would be unacceptable for firms who have been audited early to be able to use the kite-mark ahead of others who, because of the work load, are further down the queue. Thus the staffing of the initial audit needs to be high and with a period of 2 to 4 days for each audit visit itself it is hard to imagine the process taking less than a year. From the wording of the documents I believe it is accepted the audits will have to be undertaken by an outside body, much like ISO accreditation. Indeed I suggest firms will not be prepared to submit themselves to audit by members of other firms, because of IP and competitive aspects. Thus the IFoA is unlikely to be able to undertake the audits without an external organisation. Under this heading we would highlight the incidence of workload is challenging, with continued peaks at times of monitoring visits unless these are to be phased.

Fourth, the documents suggest a period of 6 years for monitoring visits. Surely this of itself would reduce the value in the public eye and risks the scheme being seen as a once off tick box standard. Firms, environment and public perceptions can change considerably over such a long period. Thus we would suggest that the review period is shortened and further serious consideration is given as to how the monitoring will be delivered with the peaks in audit needs.

Fifth, a firm can choose which of its subsidiaries, divisions and departments are to be covered. Assuming that the entity chosen is the "client facing division" where the advice is delivered to the client, how do we ensure consistency? There are 3 models which immediately spring to mind where the advice would be delivered by a kite-marked firm. First a firm where all members are within the one entity applying for accreditation. Second a firm where client facing and back office is split into separate departments and the organisation has chosen only to apply for accreditation for the client facing department. Third being the same as the second except where the back office is located overseas in a separate subsidiary and cannot, even if desired, be covered by the accreditation, being limited to the UK. Under the 3 models the work being done is the same, as is the output. How can the same quality standards be assured?

Sixth and last, we expand on the second point. In the early days of ISO accreditation of administration businesses, some of the larger firms deliberately sat outside the ISO regime on the basis of their own quality assurance standards. Because of their size and the fact that accreditation was not the established norm this was a sustainable position. As a parallel how does the IFoA guard against say 3 or 4 of the largest firms baulking at the cost aspects and choosing to live outside? If this were to happen then it would potentially damage the brand/ kite-mark and also mean that the launch and central implementation costs would have to be borne by the smaller firms with a disproportionate increase in their costs. Clearly one has to work up a scheme where buy in from the largest players is "guaranteed" but without watering down of the proposals to ensure this.

In the appendix we turn to answering the remaining questions, ignoring those which require particular responses from each organisation. I have adopted the numbering in the on-line response which differs by 1 to the numbering of the questions in the consultation document. I would confirm that the ACA does not require its views to remain confidential. Indeed to the contrary we would welcome open participation with others in furthering work on the scheme.

We hope that you find our comments of assistance and would be happy to discuss them further if that is helpful. You can contact me on 0161 242 5321 (phil_wadsworth@jltgroup.com).

Yours faithfully

Phil Wadsworth
Chairman
ACA Consulting Practices Committee

APPENDIX

ACA'S response to the Quality Assurance Scheme for Organisations

Q12 – To what extent do you think that the proposals will satisfy the following objective:provide assurance to the public and other stakeholders as to the quality of actuarial practice?

Score 4

This does by the way it is phrased imply that there is currently a question over the quality of actuarial advice. We are unaware of great concerns in this area but we cannot operate in a position of arrogance and must continue to look at ways we can further build confidence.

To that extent we believe the proposals will provide assurance, provided that the significant and onerous requirements for accreditation are widely recognised and it is not seen merely as the adding of a kite-mark and nothing further.

Q13 – To what extent do you think the proposals will satisfy the following objective: foster effective engagement between organisations that employ actuaries and the IFoA in relation to regulatory issues?

Score 2

This does seem to be a strange objective. Organisations currently work closely together through the ACA, IFoA working groups and other bodies. It is difficult to see how this scheme will enhance this or the engagement with IFoA. Indeed because of having to introduce other auditable procedures as a result of regulation there is a (remote) possibility it could work in the opposite direction. Equally engagement should be across all organisations not just those who have signed up for the scheme.

Q14 – To what extent do you think Quality Organisation status would be valued by:

Scores Organisations 4, but only because of competitive requirements

Employees 2

Prospective employees 4

Users of actuarial work 2

As suggested in our introductory remarks it is difficult to see how users would value the work which ultimately will result in fee increases and for the better firms little difference in output. Thus the value may just be limited to experiences of dealing with those firms who do not meet the user's expectations. However users have always had the option to remove the adviser and appoint another individual or firm.

Q15 – To what extent do you think the proposed monitoring arrangements aresufficient?

Score 2

As suggested earlier 6 years does seem less than adequate and would not meet the objective of improving the users' view of quality assurance. We would therefore suggest a period of 3 years.

Q16 – Do you have any comments on APS Q1: Organisations and Employers of Actuaries?

The first comment would be to replace APS Q1 by APS QA1, since the Q1 does imply a question.

Second, under definitions Member should come before not after Organisation.

Third, in Appendix 1 (i) the term "high quality actuarial work" is very subjective sand raises the question as to how quality will be judged and by whom.

Fourth, in Appendix 7 who will judge "appropriate". We would suggest these matters are for the Directors and Partners to decide and not for assessment under a Quality Scheme. Indeed any unwelcome mandatory requirements could actually result in firms opting out of what is after all a voluntary scheme.

Q17 – Do you have any comments on the Guide to APS Q1?

Paragraph 7.6 under PII should, we suggest, be deleted. Disclosures are matters covered in agreements with insurers and it is not uncommon for insurers to insist on non disclosure.

Q18 – What amendments do you consider would be required to the Guide in order to ensure its applicability to your organisation/ practice area/ sector? Do you have any comments on the Guide to APS Q1?

The ACA represents many firms of varying size, structure etc and as such it would be very difficult to provide an answer encompassing every organisation. Indeed whilst we have held a sessional meeting on the subject we have not sought views from each firm on these aspects. We are aware a large number of firms will be responding on the position of their own firm and leave this question to be addressed in these individual responses.

Q19 – We have avoided being prescriptive as to the terms/ level of PII cover. Are there however more detailed principles which we should set out in this respect?

We agree that the scheme should not be prescriptive in this area. The arrangements for each firm can be markedly different, from the largest firms who will make use of pooling arrangements for all the firm's risks to sole practitioners who have to seek individual insurances. The disclosure requirements of insurance providers differ and finally many firms operate limitation of liability clauses in agreements.

Q20 – To what extent do you agree that the combination of an Actuarial Profession standard with a supporting Guide is a clear and accessible way of presenting the material?

Score 4

This follows the approach to Conflicts of Interest and we believe it is a tried and tested format.

Q21 – Do you have any comments on the Operational Guide?

No

Q22 – Do you have any comments on the Participation agreement?

No

Q23 – Do you think that the Designated Representative should be, or include, at least one member of the IFoA?

Yes we believe this is essential

Q24–To what extent do you think that the opportunity to obtain a kite-mark or branding to promote Quality Assured Organisation status is a valuable part of the proposals?

Score 4

As indicated earlier I believe it will be difficult to engage with users on the benefits of the proposals. Therefore I believe the kite-mark is very useful in that it does provide a reminder that standards exist and a subliminal acceptance that it exists.

Q25 – Do you think that organisations would be willing to join the Quality Assurance Scheme if the Quality Assured kite-mark is not available?

As indicated in previous answers part of the driver to join is the competitive pressure and in particular the risk of exclusion from tenders if the firm is not part of the scheme. If the kite-mark were absent and there was no means of checking whether an organisation was or was not part of the scheme then we believe a number of firms would not join

Q26 – Do you have any further comments on the Quality Assurance Scheme?

We have two comments in addition to those made earlier and in the covering letter.

First, the burden of compliance for larger firms, whilst likely to be high, is proportionately less than that to be suffered by smaller firms. This is a result of many aspects not being related to the number of clients or members and these costs having to be recouped over a lesser number of clients. Has the IFoA considered how they will react if there is a significant number of small firms, or even all of them, who decide not to join?

Second, having introduced the scheme how will the IFoA measure the difference it has made? How will they demonstrate it is working and meeting its objectives, so they can defend challenge from the FRC and others?