



ACA response to Morris Interim Assessment Paper on the Actuarial Profession...

CONSULTING ACTUARIES WELCOME POSITIVE COMMENTS IN ASSESSMENT AND WILL BE CONSTRUCTIVE IN ADDRESSING CHALLENGES RAISED

17 December 2004 – The Association of Consulting Actuaries (ACA)¹, the body that represents actuaries working as consultants, has welcomed the acknowledgement in the *Morris Interim Assessment Paper of the Actuarial Profession* that there is a healthy, competitive market for actuarial services in the United Kingdom. The ACA also welcomes the positive comments made by Sir Derek Morris about the dedicated contribution made by actuaries, but says it will map out in greater detail and in a constructive way its disagreement with some of the criticisms made of actuaries in the paper in the next phase of consultations.

Ahead of the *Interim Assessment Paper*, the ACA submission to Morris had noted that over the last fifteen years, the number of firms of consulting actuaries has more than doubled (to more than 75 firms) and the number of consulting actuaries, measured by ACA membership, has more than trebled. No less than 25 different consulting firms provide actuarial services to the 'Largest 750 Occupational Pension Schemes', many more providing services to smaller

¹ The **Association of Consulting Actuaries (ACA)** has over 1500 members working in over 75 firms. Members are advisers to life and general insurance companies and UK pension schemes with assets in excess of £650 billion, including the vast majority of larger schemes and thousands of smaller arrangements.

schemes, with trustees and scheme sponsors free to switch advisers with some ease, given the choice available in the market. There is fierce competition in the market for consulting services these days and many trustees now have formal processes in place to review advisers regularly and these are usually rigorous.

ACA Chairman, Adrian Waddingham, added:

“The commercial market requires actuarial consulting firms to have strong quality control to satisfy clients, including trustees and sponsoring companies. Yes, there are areas where actuaries could do better – notably in explaining our role and limitations across the range of our work. These issues are being addressed by developments within the Profession and in parallel actions being taken by consulting firms”.

"We want to examine in detail what the Review has to say about insufficient transparency in actuarial advice and the suggestions that there is inadequate scrutiny, challenge and market-testing of actuarial advice by users. I suspect many of our members will disagree with the conclusions here - there may be serious extra costs involved for users in the proposals - but we will be 'open minded' in our appraisal of the conclusions."

"On the issue of the 'lack of clarity' in respect of accountability of actuaries to the wider public interest, referred to in the interim assessment, consulting actuaries well appreciate the importance of ensuring their advice is professionally balanced. For instance, in the area of pensions this involves trying to resolve amicably the aspirations of employers, trustees and members. In the main, this has worked well to the satisfaction of all. But, actuaries, like any other professional person, have a contractual role that they must perform, providing that this must also square with the law of the land. Consulting actuaries are well aware of the dangers of conflicts of interest and are very careful in addressing situations as they arise."

"Our initial thoughts are that of the three alternative models of regulation outlined in the interim assessment, the model of 'independent oversight' is certainly favoured, but we will take a lot of persuading that the Financial Reporting Council is the appropriate body given its prime responsibilities are to regulate a quite different profession," commented ACA Chairman, Adrian Waddingham.

Copies of the ACA response to the Morris Review consultation paper are available on the ACA website at www.aca.org.uk go to 'policy statements' button.

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Note to Editors:

The **Association of Consulting Actuaries (ACA)** has over 1500 members working in over 75 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. He is expected to conclude his review in Spring 2005.

Key points in the ACA submission to Morris ahead of the *Interim Assessment* were:

1. Consulting actuaries are active in the workings of the actuarial profession, making up close to half of the practising members in the UK. The ACA says that the UK Profession is highly regarded internationally and is a thought-leader in initiatives and education worldwide.
2. Consulting actuaries increasingly do a lot more than is "reserved" for consulting actuaries by statute, which the ACA believes is testimony to the ability of consulting actuaries to add value. However, the reserved

roles are important and offer a key protection for the public that would be removed at high peril.

3. In order to win and retain business, consulting actuaries have to be accountable, flexible and transparent in the way they undertake their work. Efforts to improve the communication of complex financial issues are already a key concern and one where consulting actuaries are keen to do their best, to learn and to harness new techniques. The ACA is also looking to work with organisations like the FSA in promoting better financial education and communication.
4. There are quite different pressures operating on consulting actuaries operating in pensions as compared to employed actuaries operating in life offices.
5. Consulting actuaries, through the ACA and the efforts of individual firms where they work, have been at pains to communicate concerns on major issues of 'public interest'. Unfortunately, government and the wider public is not always receptive to the arguments made.
6. The Profession is moving with the times and considering important changes without the need for additional heavy-handed regulation. Developments are already in hand including updating the exam syllabus, strengthening Continuous Professional Development (CPD) requirements, changes to the disciplinary procedure (introducing lay members) and proposals to introduce an Actuarial Standards Board (with a majority of lay members). The ACA supports this forward-thinking agenda.
7. The ACA endorse the changes to the Appointed Actuary role that are designed to address certain problems identified by Lord Penrose. However, the ACA note that not all the problems that were identified were regulatory in nature and hence solutions that change the regulatory system will not necessarily of themselves engineer risk out of the system.
8. Consulting actuaries are extremely concerned that in core areas of work, over-regulation has removed choice for the public and increased the cost of products without any real 'net gains' for the public. Change merely to mirror regulatory developments in other Professions (which have yet to be proved successful) should be avoided, unless there are compelling arguments in favour of such changes. Changes to the regulation of actuaries must reflect the particular needs of the Profession and, most importantly, those it serves.