The Actuarial Profession

Consultation Paper
Conflicts of Interest – New Policy Proposals

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Hymans Robertson LLP and Hymans Robertson Financial Services LLP are authorised and regulated by the Financial Services Authority

Overview

- New draft conflicts of interest policy which all stems from the Morris review.
- No changes to Actuaries Code but...
- APS P1 revised to tackle dual appointments.
- As we face new challenges in the 21st century, it is only proper that the Profession has a 21st century approach

“the future ain’t what it used to be”

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Conflicts of Interests Working Party

"You can observe a lot just by watching"

- Sought views of interested parties in July 2010
- Included users, regulators and actuaries
- Overwhelming response from members of actuarial profession (over 300 replies)
- Relatively few responses from users
- Second targeted round of discussions with users and regulators between March and July 2011

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Views Obtained

- Conflicts of interest are common in actuaries' everyday lives
- Perception amongst actuaries, clients and employers is that most conflicts are managed properly
- But there is a clear desire for additional guidance
- Specific concern about pension scheme actuaries providing advice to employers

"Denial is not just a river in Europe."

Package of measures proposed

- Aim is to address the call for further guidance particularly regarding the position of pension scheme actuaries
- Reaffirm importance and overriding necessity of the "impartiality" principle of the actuaries' code
- Targeted approach in addressing areas in which significant risk has been identified

"Good things always come in pairs of three"

1. Specific prohibition on scheme actuaries advising the sponsoring employer in relation to the funding of the scheme or any matter which has a direct bearing on the benefits payable under the scheme
2. New guidance – both for actuaries and pension scheme trustees
3. Additional professional support

Principle 3 of Actuaries' Code

"It's like déjà-vu all over again."

- Members will ensure that their ability to provide objective advice to their clients is not and cannot be reasonably seen to be compromised
- Conflict of interest arises if a member's duty to act in the best interest of any client conflicts with:
  - The member's own interests
  - An interest of the member's firm
  - The interest of other clients
- Members will take reasonable steps to ensure they are aware of any relevant interest, including income of the firm
- Members will disqualify themselves from acting where there is any conflict of interest that cannot be reconciled

- Members will document the steps they have taken to reconcile a conflict and will agree those steps with their clients if they would be ineffective without agreement.

- Before accepting any assignment, members will consider whether they should consult with any member who previously held such a position with the client, to establish whether there might be any professional reason why the assignment should be declined.

Specific regulatory provision

"The rules aren't here to create disorder they're here to preserve it"

- Scheme Actuary must not advise employer in relation to funding of scheme or in relation to any matter which has a direct bearing on the benefits payable, including but not limited to advice on actuarial factors
- Before and while undertaking work for employer, Scheme Actuary must follow following approach:
  - Scheme Actuary, trustees and employer produce and maintain a written agreed plan
  - Plan allows trustees the option to continue with Scheme Actuary appointment
  - Waiver of any duty of confidentiality otherwise owed to employer
  - Scheme Actuary reviews regularly whether he can continue acting for both parties

- Scheme Actuary can follow an alternative approach which could reasonably be expected to provide equivalent protection to the interests of the trustees
- If a Scheme Actuary is aware that another person in his firm is undertaking work for the employer, he must ensure that the trustees are aware of any conflicts of interest which as a result arise of might potentially arise
- Also applies to non Scheme Actuaries advising trustees on funding or benefits payable

"In theory there is no difference between theory and practice. In practice there is."

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Discussion points

"Things are much more confiscated now."

- Are the proposals reasonable?
- Do they go far enough?
- Practical implications
- Should non actuarial consultants in your firm advise both parties?
- Definition of "work"
- Can the same calculation team work for both parties?
- Access to paper and computer files
- Geographical separation
- How far do you take the duty to disclose relevant information?

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Thank you

Any questions?