

The Actuarial Profession
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Morris Review and beyond

Highlights of the Life Convention
14 February 2005

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My agenda today


- Profession's response to Morris interim analysis – general
- Profession's response to Morris interim analysis – some life specifics
- Where we go from here



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Morris issues

- Market for actuarial services
- Profession and regulation
- Actuarial roles
- Public interest and accountability
- Education and CPD
- Standard-setting
- Scrutiny and discipline



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Market for actuarial services

- Much the largest element of this is related to pensions advice
- Was also the subject of the Myners investigation into investment effectiveness
- Morris identified room for improvement

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Improving market effectiveness

- Improving competition
 - Liability caps to make entry easier
 - 'Unbundling' of scheme actuary from other work
- Improving clarity of advice
 - Leave it to the market
 - Improve actuaries' communication skills
 - Improve standards of disclosure
 - Simplify regulatory requirements

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Improving market effectiveness

- Increasing market testing by
 - Greater scrutiny of advice
 - Increased education/expertise of users
 - Mandatory regular review of appointments
 - Performance measurement
 - Peer review of advice delivered
 - Improving user understanding
 - Raising standards of knowledge and expertise
 - Giving trustees access to our guidance
 - Greater use of professional or quasi-professional trustees

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Improving market effectiveness

- Improving competition
 - Liability caps to make entry easier Yes but not too low
 - 'Unbundling' of scheme actuary from other work an issue for trustees?
- Improving clarity of advice
 - Leave it to the market not enough
 - Improve actuaries' communication skills yes
 - Improve standards of disclosure dubious????
 - Simplify regulatory requirements good idea!

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Improving market effectiveness

- Increasing market testing by
 - Greater scrutiny of advice
 - Increased education/expertise of users yes
 - Mandatory regular review of appointments doubtful
 - Performance measurement yes if?
 - Peer review of advice delivered doubtful
 - Improving user understanding
 - Raising standards of knowledge and expertise yes
 - Giving trustees information about our guidance yes
 - Greater use of professional or quasi-professional trustees yes

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Profession and regulation

Figure 9.1: Wider regulatory framework for the Actuarial Profession



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Profession and regulation

Table 3.1: Regulatory models

	Model A Self-regulation	Model B Independent oversight	Model C Statutory regulation
Actuarial qualifications and education	Profession sets entry requirements – syllabus, CIO	Profession sets entry/CFO requirements, subject to oversight by independent body	FSA and Cypss set entry/CFO requirements
Standard-setting	Profession sets all standards relating to actuaries	Actuarial Standards Board sets standards, subject to oversight by independent body	FSA and Cypss set all standards
Providing compliance	Profession promotes continuing competence through granting certificates, monitors compliance, mandates peer review	Profession promotes continuing competence, monitors compliance, peer review, subject to oversight by independent body	FSA and Cypss promote continuing competence, monitor compliance, mandate peer reviews etc.
Dealing with non-compliance	Profession disciplines against own standards	Independent body disciplines, subject to oversight by independent body	FSA and Cypss discipline

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- Accounting Standards Board
- Auditing Practices Board
- Financial Reporting Review Panel
- Accountancy Investigation and Discipline Board
- Professional Oversight Board for Accountancy

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Our response - issues

- Yes in principle
- Organisation
- Governance / composition
- Funding

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- Accounting Standards Board
- Auditing Practices Board
- Actuarial Standards and Practices Board
- Financial Reporting Review Panel
- Accountancy Investigation and Discipline Board
- Professional Oversight Board for Accountancy and Actuarial

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FRC - Governance / composition

- Board and Council
- Representation for profession
- Representation for our 'users'
 - Clients
 - Regulators (FSA / Pensions regulator)
- Linkage with funding

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FRC - funding

- Current
 - Accountancy bodies – 1/3
 - Listed companies – 1/3
 - Government – 1/3
 - Future – various possibilities
 - Professions – 1/3
 - Government – 1/3
 - (Listed companies+ insurers/pension funds) – 1/3
- Affordability is important*
Linkage to composition

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Public interest and accountability

- More comprehensive guidance from the Profession or regulators on when to whistle-blow
- wide legal protection based on good faith and *reasonable belief*; duties to whistle-blow are clear, objective and enforceable, based on *reasonable cause to believe*
- bringing whistle-blowing requirements for auditors and actuaries more into line and extending protections

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Public interest and accountability

- More comprehensive guidance from the Profession or regulators on when to whistle-blow regulator lead essential
- wide legal protection based on good faith and *reasonable belief*; duties to whistle-blow are clear, objective and enforceable, based on *reasonable cause to believe* yes with defence of "reasonable justification for not suspecting"
- bringing whistle-blowing requirements for auditors and actuaries more into line and extending protections yes

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Education and CPD

- Syllabus and governance
 - Reform with academic and external input
 - Oversight by POBAA/POBAct
- Examinations issues
 - Better quality control
 - Dedicated full-time professional examiners
 - Oversight by POBAA/POBAct

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Education and CPD

- Broadening actuarial education provision
 - Wider provision and accreditation of degrees that grant exemptions
 - Promotion of post-graduate fast-track (law-style) conversion courses

CPD 'options'

- CPD
 - Clear objectives for CPD Scheme; clarify formal CPD; avoid tick-box exercise
 - Increased amount and quality of formal CPD for reserved role holders and tailored CPD opportunities ahead of regulatory changes
 - Closer links between syllabus development, actuarial research and CPD
 - Greater input to the CPD Scheme through involvement of POBAA/POBAct

Education and CPD – CPD monitoring

- Current proposal or extend practising certificate so all members do CPD
- Oversight by POBAA/POBAct

Practice area specific certificates still an open question

Education and CPD

- Syllabus and governance
 - Reform with academic and external input yes
 - Oversight by POBAA/POBAct yes
- Examinations issues
 - Better quality control yes, already
 - Dedicated full-time professional examiners practicality?
 - Oversight by POBAA/POBAct yes

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Education and CPD

- Broadening actuarial education provision
 - Wider provision and accreditation of degrees that grant exemptions yes, but not easy
 - Promotion of post-graduate fast-track (law-style) conversion courses yes, but not easy

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CPD 'options'

- CPD
 - Clear objectives for CPD Scheme; clarify formal CPD; avoid tick-box exercise self-assessed against outcomes
 - Increased amount and quality of formal CPD for reserved role holders and tailored CPD opportunities ahead of regulatory changes yes, including external opportunities
 - Closer links between syllabus development, actuarial research and CPD yes
 - Greater input to the CPD Scheme through involvement of POBAA/POBAct yes

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Education and CPD – CPD monitoring

- Current proposal or extend practising certificate so all members do CPD yes, but based on need, not hours
- Oversight by POBAA/POBAAct yes

Practice area specific certificates still an open question left to post-Morris discussions with POBAA/POBAAct

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Standard-setting

- Actuarial Standards Board (ActSB) which is quasi-independent of the Profession (as per the Profession's proposal); or
- Actuarial Standards Board (ActSB) embedded within by a suitably independent body, for example the Financial Reporting Council; or
- The FSA sets standards in life and general insurance, and DWP/Opra sets standards for pensions.

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Standard-setting

- Actuarial Standards Board (ActSB) which is quasi-independent of the Profession (as per the Profession's proposal); or NO
- Actuarial Standards and Practices Board (ActSB) embedded within a suitably independent body, for example the Financial Reporting Council; YES or
- The FSA sets standards in life and general insurance, and DWP/Opra sets standards for pensions. NOOOOO!

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Discipline

- The disciplinary scheme remains accountable to the Faculty and Institute's Councils; or
- The disciplinary scheme is accountable to a suitable independent oversight body; and/or
- Encouragement of closer links between whistle-blowing to regulators and the disciplinary scheme.

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Discipline

- The disciplinary scheme remains accountable to the Faculty and Institute's Councils; NO? or
- The disciplinary scheme is accountable to a suitable independent oversight body; YES? and/or
- Encouragement of closer links between whistle-blowing to regulators and the disciplinary scheme. ???

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Life issues – **accountability**/scrutiny

- **Actuarial Function Holder - Accountability**
 - status quo – Actuarial Function Holder role as currently specified by the FSA; or
 - greater protections for whistle-blowers.
- **Reviewing Actuary - Accountability**
 - status quo – Reviewing Actuary role as currently specified by FSA, with the Reviewing Actuary reporting privately to the auditor; or
 - Reviewing Actuary role as currently specified by FSA, with additional duty to provide a private management letter to the Board on the Actuarial Function Holder's compliance with professional guidance; and/or
 - Reviewing Actuary to have direct whistle-blowing duties.

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Life issues – **accountability**/scrutiny

▪ **With-Profits Actuary - Accountability**

- status quo – With-Profits Actuary role as currently specified by the FSA; or
- the With-Profits Actuary should be external to the insurer; or
- the With-Profits Actuary should be appointed by the With-Profits Committee, if one exists, or otherwise the Audit Committee; and/or
- the With-Profits Actuary makes a full report to the regulator. Policyholders receive a copy of the With-Profits Actuary's opinion and have access to the full report.

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Life issues – **accountability**/scrutiny

▪ **Actuarial Function Holder - Accountability**

- status quo – Actuarial Function Holder role as currently specified by the FSA; yes or
- greater protections for whistle-blowers. Yes if possible

▪ **Reviewing Actuary - Accountability**

- status quo – Reviewing Actuary role as currently specified by FSA, with the Reviewing Actuary reporting privately to the auditor; yes or
- Reviewing Actuary role as currently specified by FSA, with additional duty to provide a private management letter to the Board on the Actuarial Function Holder's compliance with professional guidance; and/or yes, but will happen anyway?
- Reviewing Actuary to have direct whistle-blowing duties. Yes, where external to auditor

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Life issues – **accountability**/scrutiny

▪ **With-Profits Actuary - Accountability**

- status quo – With-Profits Actuary role as currently specified by the FSA; yes but concern re duty of care or
- the With-Profits Actuary should be external to the insurer; no (premature) or
- the With-Profits Actuary should be appointed by the With-Profits Committee, if one exists, or otherwise the Audit Committee; not necessarily and/or
- the With-Profits Actuary makes a full report to the regulator. Policyholders receive a copy of the With-Profits Actuary's opinion and have access to the full report. Yes and no

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Life issues – accountability/scrutiny

- Reviewing Actuary as currently specified by the FSA, with no mandatory peer review as proposed by the Profession; or
- Reviewing Actuary as currently specified by the FSA, and peer review as proposed by the Profession; or
- Reviewing Actuary's remit is expanded to include an explicit duty to report on compliance with actuarial standards; or
- Reviewing Actuary as currently specified by the FSA, with additional duty to provide a peer review letter to the Actuarial Function Holder and/or the Board.

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Life issues – accountability/scrutiny

- Reviewing Actuary as currently specified by the FSA, with no mandatory peer review as proposed by the Profession; yes or
- Reviewing Actuary as currently specified by the FSA, and peer review as proposed by the Profession; not yet or
- Reviewing Actuary's remit is expanded to include an explicit duty to report on compliance with actuarial standards; not yet or
- Reviewing Actuary as currently specified by the FSA, with additional duty to provide a peer review letter to the Actuarial Function Holder and/or the Board. Not yet

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What happens next?

- Review likely to finalise late March
- Will likely point direction rather than specify detail
- HMT unlikely to react substantively until after election
- FRC is a DTI responsibility

*Profession can take initiative
Forge working relationships
Significant burden on leadership*

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Looking forward

- Self-regulation by professions is history
 - Balance oversight with substantive regulation
 - Lessons from other professions
 - Opportunity
 - Revive 'learned ethical society' model
 - From regulator to cheerleader
 - Promote actuaries and the actuarial career
- Hang on for an exciting ride!*

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Thank you! (and over to you for
questions and comments!)