

The Actuarial Profession
making financial sense of the future

The Actuarial Profession Asset Liability Modelling Working Party
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Improving Best Practice Workshop

Background

Proposed topic

"How actuaries could provide best advice to Trustee Groups in response to ALM studies"

Two projects identified

- Best advice structure - proceeded
- Technical knowledge - held

Initial Hypothesis on ALM Today

- An important tool for framing risk management decisions;
- But complex, being "Assumption" and "Model" dependent;
- Rarely subject to expert independent review;
- Many Trustees not able to properly evaluate the outcome:
 - risks a poor decision making process resulting
 - Trustees acting on faith or not acting at all
- Scheme Actuary may be well placed to provide independent advice?

Research Objective/Approach

Objective

- Validate or otherwise our Hypothesis

Approach

- Working party of actuaries and other industry bodies (APL, NAPF + Independent Trustees)
- Reference
 - Scheme Actuary requirements
 - BAS ALM modelling requirements
 - SFO process

Output

- Recommendations

What We Found - 1

- ALM seen as a useful tool that should however be treated with care
- Provision of ALM services wide ranging
 - Investment consultants
 - Actuaries
 - Asset Managers
 - Investment Banks
 - Insurance Companies
 - In-house capabilities
- Providers able to disclose their key modelling assumptions ... but poorly positioned to give objective independent review

What We Found - 2

- Trustees additional concerns regarding:
 - Knowledge and understanding (theirs)
 - Cost (of additional advice)
- Parallels to Actuarial Valuation Process
- Scheme Actuary appeared well positioned based on
 - Trust (personal nature of appointment, longevity and professionalism)
 - Knowledge (of the whole problem)
 - Cost (no new appointment, already at meetings)

What We Found - 3

- Actuaries aren't perfect, lacking
 - ALM Knowledge (not trained)
 - Independence (same firm)
 - Communication skills (improving)
 - Ability to step back from detail

Workshop

1. Consider conclusions and recommendations
 - a. Do you agree?
 - b. Alternative recommendations
2. Have we missed anything

Conclusion 1

1. ALM important risk management tool
2. As a matter of best practice Scheme Actuaries should
 - a. Recommend regular such reviews; or
 - b. Justify why such reviews are unnecessary

Conclusion 2

1. An independent review of ALM is important
2. As a matter of best practice Scheme Actuaries should
 - a. Recommend such a review takes place; or
 - b. Justify why such a review is unnecessary

Conclusion 3

1. Scheme Actuaries are well placed to undertake/assist in such independent reviews
2. Should acquire skills to undertake this role with actuarial profession support via:
 - a. Actuarial examination syllabus
 - b. Independent research into various models, strengths and weaknesses
 - c. Update training / certification – based on research + BAS

Next Steps

- Consolidate findings from today's workshop
- Present to Pensions Executive Committee
