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Dear Emily

Response to Discussion Paper: Promoting Actuarial Quality

The Association of Consulting Actuaries (ACA) welcomes the opportunity to respond to the Promoting Actuarial Quality Discussion paper issued by the Financial Reporting Council (FRC) in May 2008. 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, subject to the code of professional conduct of the Faculty and Institute of Actuaries. The FRC is responsible for the independent oversight of the UK Actuarial Profession and the setting of actuarial technical standards. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of defined benefit pension schemes. The ACA is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies.

Overall the document is a welcome addition to the debate on actuarial quality and how improvements can, where appropriate, be furthered. The Open Forum at the Staple Inn on 16th September signalled overall agreement to the aims contained therein and the concurrent consultation on Monitoring and Scrutiny of Actuarial Work. There are nevertheless some comments and suggestions we would wish to make as well as providing answers to the questions posed. These are included in the appendix to this letter.

We hope you find our comments of assistance.

Yours sincerely

Phil Wadsworth MA FFA
Chairman
Consulting Practice Committee

ACA comments on Discussion Paper on Promoting Actuarial Quality

Appendix

Overall the document is a welcome addition to the debate on actuarial quality and how improvements can, where appropriate, be furthered. There are nevertheless some comments and suggestions we would wish to make as well as providing answers to the questions posed.

First, there appears to us to be an over concentration on the use of models as if that were the only thing actuaries did or used. The work of consulting actuaries who are members of the ACA is much wider and deeper than this. Whilst this reference provides a distinguishing feature over playing of this could work against the profession. For example clients may believe they should go to an accountant or financial economist to provide the advice and once received they should go to the actuary to run the models, clearly an incorrect approach! Our role is to take issues/concerns/enquiries from our clients, break these down, bring out the true issues and either provide advice ourselves in our specialist area or assist the client in obtaining advice from a professional in another discipline. Somewhere this should be brought out.

Second, setting out aims is very commendable. We just question how success (or failure) in achieving these will be measured?

Turning to the specific questions, we have only answered those in relation to pensions work since this covers the vast majority of the work undertaken by our members. Nevertheless we suggest that some of our answers can be applied in Insurance Company and General Insurance work.

2(i) Do you agree that the use and interpretation of mathematical models to describe financial systems, portfolios and entities is an underlying feature of actuarial work?

Yes, but as said above whilst this is a feature it is only part of the daily work of our members.

2(ii) What other features describe and distinguish the nature and scope of actuarial practice?

Whilst the use and interpretation of models is a distinguishing feature of actuarial work, the descriptors in section 2.5 would in our opinion better reflect the raison d'etre for the Actuarial Profession.

4(i) Have we identified the key drivers of actuarial quality? How can they be added to, re-defined or re-structured?

Yes we believe these drivers are key. However communication has been highlighted as a key driver and we would observe that there are other soft skills which are equally important.

4(ii) Do other drivers apply in sectors apart from life insurance, general insurance and pensions?

We do not believe there to be other drivers in different sectors.

5 & 6 We have restricted ourselves to answering the questions in relation to pensions but believe these could be useful to FRC in considering responses in Life insurance and General insurance.

7(i) Have we accurately described the main features of actuarial work in pensions?

Important work undertaken by actuaries which is not explicitly mentioned is:-

- Risk management in relation to the interaction of assets and liabilities. This covers strategic investment advice, asset/liability modelling and construction of LDI portfolios., and advice in relation to buy-in/buy-out of benefits with an external provider
- Apportionment of assets in a scheme wind up
- Reporting responsibilities to the Pensions Regulator

The document includes some detailed work of actuaries and in regard to those areas not explicitly mentioned, but of less significance are.

- Certification in relation to contracting-out.
- Statutory debt calculations
- Statutory valuations (S179 and S143) for the Pension Protection Fund

7(ii) Have we identified the main drivers in this area?

Yes

7(iii) Have we identified the main threats to these drivers?

Paragraph 7.38 does highlight one threat which is becoming ever increasingly difficult to manage in the litigious society in which we operate. Clients naturally expect us to give advice recommendations and not merely present a range of options with no steer whatsoever. Morris appears to go against this and some firms now find themselves driven to the position of feeling they can do no more than sit on the fence. As the paper says quality should manifest itself in clear and useful advice but in addition needs to allow actuaries to make recommendations as they feel is appropriate. The actuary will include caveats to that advice, but we must guard against 2 lines of recommendation and 6 pages of caveats and disclaimers. The Technical Actuarial Standard on Reporting (TAS R) helpfully allows a principles based approach to reporting. We must encourage Regulators to allow us to do this without dictating what and what must (as oppose to may) be included in reports. The current position is that in order to comply with these codes reports have become unmanageably lengthy and contain irrelevant (to the reader) information.

7(iv) Have we identified the main indicators that these factors are helping to promote actuarial quality?

Yes

7(v) Are there any further steps that the FRC could take to promote actuarial quality?

No

Produced by

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