

Ms Emily Brown  
Financial Reporting Council  
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Dear Ms Brown

**Promoting Actuarial Quality**

I am writing in connection with the discussion paper issued by the Financial Reporting Council on Promoting Actuarial Quality. I have attached Buck Consultants' comments on the discussion paper which are set out in the Appendix to this letter.

Please note that we have only commented on general questions and those relating specifically to pensions. We have not commented on the questions relating to life insurance or general insurance.

We would be pleased to answer any questions that you have arising from our response to the consultation.

Yours sincerely



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Appendix – Response to the discussion paper “Promoting Actuarial Quality”  
issued by the Financial Reporting Council

**Q2 (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?**

We agree that the use and interpretation of mathematical models is an underlying feature of actuarial work.

**Q2 (ii) What other features describe and distinguish the nature and scope of actuarial practice?**

In the pensions field, a significant proportion of the work is driven by regulation either specifically by use of standard assumptions (e.g. in valuations for Pension Protection Fund purposes) or indirectly (e.g. by making trustees responsible for setting the bases and assumptions for actuarial valuations and transfer value calculations). The work is more mechanical when constrained by regulation and traditional actuarial expertise less important than the process (see below).

**Q4 (i) Have we identified the key drivers of actuarial quality? How can they be added to, re - defined or re - structured?**

Under ‘Other Factors’, one of the points made is the (in)ability of the users of actuarial work to challenge the information or advice they receive. This may be more accurately expressed as the lack of understanding of the recipients of the advice due to inexperience, insufficient training or simply as a consequence of the actuarial work being highly technical or complex. This is not just a communication issue for actuaries, though obviously an important factor, but, particularly in pensions, a knowledge and training issue for the recipients of the advice.

A further driver is the process by which the solution or the answer to a particular problem is arrived at. For example, in pensions, the actuarial valuation process should be consistent, irrespective of the client, in order that the risk of inaccuracy or error can be minimised.

In general, it would be the actuarial trainees or recently qualified actuaries within a pensions consultancy who would carry out the data reconciliation and manipulation tasks with the senior actuary reviewing the final output. The senior actuary would not be involved in these initial tasks or in the checks placed on the data though he would be able to add to the process from his general experience and by carrying out an approximate estimate of the liabilities from first principles. The analysis of the movement in surplus or deficit from one valuation to the next is also a useful check on the process.

It is therefore vital that the process is thorough and straightforward to follow and also sufficiently robust to deal with specific client issues. Having a consistent approach also means that it is relatively straightforward for one person to check another’s work and for different individuals to become involved at any stage of the process.

**Q4 (ii) Do other drivers apply in sectors apart from life insurance, general insurance and pensions?**

We do not comment on this question as our expertise is confined to the pensions sector.

**Q7 (i) Have we accurately described the main features of actuarial work in pensions?**

The paper notes that actuaries are involved in scheme design and performance measurement in DC schemes but these are also features of the work carried out by actuaries in DB schemes. Actuaries also advise on strategic asset allocation in DB schemes. The other area in which actuarial advice is required is in the preparation of Section 143 and Section 179 valuations for Pension Protection Fund purposes.

**Q7 (ii) Have we identified the main drivers in this area?**

See answer to Q4 (i) above.

**Q7 (iii) Have we identified the main threats to these drivers?**

The threats listed comprise the main issues in actuarial work in pensions.

Problems with data are rightly identified as one of the main sources of actuarial inaccuracies particularly for older schemes where data was originally stored on record cards and not always transposed correctly or wholly on to computer files.

As noted in 7.28, most consultancies use sophisticated mathematical models though a significant amount of actuarial work is, through necessity or for simplicity, carried out through the use of spreadsheets. The sophisticated models are either developed internally or supplied by external sources and are thoroughly tested before use and continually reassessed and updated. However, this is not automatically the case with spreadsheets as many are developed for limited use to deal with specific or unusual problems. Hence there is not the same degree of rigour in the development or use of spreadsheets which can result in errors if not carefully controlled.

Assessment of the covenant of the employer is not an expertise that actuaries possess as it is not covered by actuarial training but is in the domain of accountants. Consequently, it is difficult for actuaries to advise trustees on the appropriate strength of technical provisions and the length of recovery plans when these are reliant, to an extent, on the strength of the covenant.

Conflicts of interest is an area that was not identified until relatively recently by the actuarial profession as a key issue, unlike in the case of the legal profession. This has now been recognised as a major concern and most actuaries are aware of the potential for conflicts to occur. The way in which conflicts are dealt with is still being developed and could lead to a separation of advice provided to trustees and advice to the sponsoring employer. This would be a cost issue for small and medium sized companies unless robust Chinese walls could be set up within consultancies, an issue that would be more straightforward for the larger firms to tackle than for small firms or sole practitioners.

**Q7 (iv) Have we identified the main indicators that these factors are helping to promote actuarial quality?**

We believe that the main indicators have been fully set out in the paper.

**Q7 (v) Are there further steps that the FRC could take to promote actuarial quality in pensions?**

Taking an active role, in conjunction with the Professional Oversight Board, to assist the profession in the development of standards for handling conflicts of interest would aid the promotion of actuarial quality in pensions.

