

Paul Greenwood BSc FIA

30th September 2008

Financial Reporting Council
5th Floor
Aldwych House
71-91 Aldwych
London
WC2B 4HN

Dear Sir

Discussion Paper – Promoting Actuarial Quality

I am responding to Paul Kennedy's invitation to comment dated 30th June 2008.

For this paper, the development of my own thoughts fits the question structure, so I will respond using the format of answers to the specific questions and use your numbering

Q2 (1) I agree that somewhere, there is a mathematical model either upfront or in the background of actuarial advice.

(ii) I find it very hard to distinguish actuarial work other than to say performed by someone with knowledge of actuarial matters and techniques. It is wrong to restrict such knowledge to application to particular fields

Q4 I believe the discussion paper has identified the main drivers of actuarial quality. I would however add that as the role of profession changes the formal power for many of the decisions previously made by Actuaries moves from the professional to their client. Hence the role of the Actuary changes to or is confirmed as an adviser. The relative importance of the various drivers to outcome therefore changes and the importance of the "understanding gap" increases. Indeed if the understanding gap is large as Morris implied, then such a move has grave dangers if lack of understanding chooses a course of action that produces an outcome with a consequence not expected or understood by the decision maker. This is especially so in an area like pensions with more lay involvement in decision making.

ii) I do not see particularly any other drivers applying outside the usual three main sectors of Actuarial work.

As most of my work and experience was in relation to pensions, I now turn to answer the Q7 questions specific to pensions.

Q7 i) and ii) For the pensions area, I agree you have described the main features of actuarial work and the drivers of quality.

Q7 iii) Dangers to drivers will evolve over time and partly depend on what other changes are going on. For example, there is a very tricky balance when communicating to the lay client an adequate number of outcomes and scenarios and confusing the client with too much choice. The reaction can also depend on personality type and tendency to choose favourable outcome. There were also two camps on financial economic understanding and philosophical approaches to running schemes and who should bear what risks. These "camps" were very difficult or impossible to fit into the same legislative and standards framework. Over the years, this has combined with weak standards to produce poor quality outcomes. However just as the Profession lost control of technical standards, I do believe the Profession was finally at last producing some good comprehensive standards, e.g. Pension Fund Valuation reports.

To my mind, the major problem that remains is the reluctance to be first to communicate new bad news on costs due to the commercial pressures. For example on the subject of mortality, we are now roughly three years past the first firm indications that the cohort effect or increased improvement rates were not falling away as assumed. Yet under a regime where the assumptions are meant to be prudent, because of the commercially lead outcry (not just from the profession) we even have TPR backing away from mortality based triggers. The first schemes have only just started to move beyond medium cohort and introduce minimum underpin improvement rates. This is an area in which just pure disclosure can take too long to work.

I suppose the above hints at a new threat to quality of the regulatory and standards regime becoming too sub-divided or remaining under political and or commercial influence.

7 iv) and v) Since the time of Morris, or just before, I do believe there has been much progress on matters that impinge the quality of actuarial advice and outcome. I believe the right steps for the FRC (where they have immediate influence) is to concentrate on the main threats I believe remain. I believe these relate to ethics and commercial pressures. Logically I believe monitoring and scrutiny arrangements should hence initially concentrate available resources on those and that leads logically to my response to the other consultation document on "Monitoring and Scrutiny of Actuarial Work"

Yours Sincerely

Paul Greenwood