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Benefit Solutions

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Ref: 0708Lt003 re Promoting Actuarial
Quality

Dear Sirs

Response to Discussion Paper: Promoting Actuarial Quality

Jardine Lloyd Thompson provides consulting, actuarial and administration services to trustees and employers in relation to 1,000 or so work-based pension arrangements with assets ranging from a few thousand pounds to over £1,000m, and to individuals with regard to individual pensions. We employ approximately 750 pensions staff in the UK, of which about 50 are qualified actuaries and the majority of whom hold a Scheme Actuary practicing certificate. This letter sets out JLT's response to the consultation.

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 we would wish to make ahead of merely answering 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 actual position is that clients, be they customers, regulators, trustees or whoever, have problems and issues on which they require advice and guidance. Our skill set is not only to run models to produce answers but more deeply to understand the issues, give advices as to how to go about resolving these issues and who to consult and how. Then in the area we are experts to give advices which are relevant, comprehensive and most importantly understandable. Somewhere this should be brought out.

Second, setting out aims are all very well, but in the good tradition of objective setting these should be SMART objectives where success can be measured. Has thought been given to how success (or failure) will be measured?

Third, communication has been given a high profile. This could have been covered within professionalism but I respect why it has not. Nevertheless equally and arguably more important in the provision of advice is organising oneself and one's team to analyse the piece of work to be completed, agree costs, deadlines and deliverables and to deliver the advice in a clear and understandable form. This could be felt also to be part of professionalism but if communication is worthy of separate debate I believe this and other softer skills are capable of separate treatment also.

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 an actuary.

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

We believe all relevant features have been described in this section of the discussion paper. The use of models as described in the question above is a distinguishing feature.

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

Yes these drivers are key, but again as said above, we would recommend inclusion of other softer skills such as organisational ability.

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

We believe the drivers identified equally apply to other sectors.

5 & 6 We have no comments here as these are not our areas of business.

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:-

- Generic investment advice and asset/liability modelling
- Statutory debt calculations
- Calculations and advice on allocation of assets in a scheme wind up
- Statutory valuations (S179 and S143) for the Pension Protection Fund
- Reporting responsibilities to the Pensions Regulator
- Advice and clarification on bulk transfers
- Certification in relation to contracting-out.

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

Yes

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

One or two areas of the Pensions Regulator's Code of Practice on scheme funding, GN9 and GN49 are a threat to clear communication of actuarial information and advice. This sometimes leads to advice being partly irrelevant and unnecessarily lengthy. For example, it would clearly be inappropriate for the actuary to advise on many of the matters listed in paragraph 102 of the Pensions Regulator's Code of Practice (e.g. the employer's expenditure commitments, reports of industry regulators, the anticipated level of the risk based element of the PPF levy in future) and it is silly that GN49 requires the actuary to state he has not advised on these.

Ever increasing litigation in society can hinder the ability to give clear advice. In addition, it can lead to lengthy caveats which hinder clear communication of advice.

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

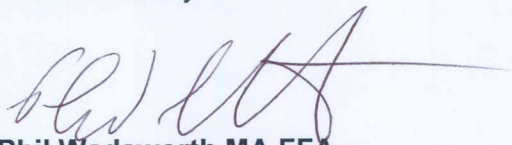
Yes

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

No

I thank you for giving an opportunity to comment as well as, in advance, for the consideration of our comments. I would be more than happy to discuss any of the points in more detail (my contact details are set out above)

Yours sincerely



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