

Royal Mail Pension Plan

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24 September 2008

Promoting actuarial quality

This response to the Promoting Actuarial Quality Discussion Paper has been prepared on behalf of the Trustee of the Royal Mail Pension Plan. Our response considers aspects of actuarial quality in the context of how these apply to a large defined benefit pension scheme. We have not commented on aspects of actuarial quality that might apply to Life Insurance or General Insurance.

We are supportive of the FRC identifying areas in which it believes the quality of actuarial advice and information can be improved and generally support any recommendations which might limit the risks faced by pension scheme members through higher quality advice. There is inevitably a balance to be struck between increased regulations/compliance designed to improve the quality of actuarial advice and the increased costs charged by service providers to meet those standards. We would caution against any increase in the level of regulation that leads to a suppression of innovative advice, which may occur if the providers of actuarial services operate in accordance with stricter internal guidelines which limit the scope to provide advice that is tailored to individual pension schemes.

Responses to specific questions

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? What other features describe and distinguish the nature and scope of actuarial practice?

Whilst mathematical models are useful tools in actuarial work to look at the range of possible future outcomes, they need to be used and interpreted with great caution and form only part of the scope of actuarial work. Equally important is the ability of an actuary to understand the nature of the business, the politics affecting the decision making processes and the interests of the various stakeholders in connection with a pension scheme.

Actuarial calculations are based on uncertain assumptions and the communication of results, including explanation of the limitations of any assumptions or models used, is critically important. The quality of actuarial advice should therefore be judged in terms of pension scheme trustees being adequately advised in order to take reasonable decisions and not in terms of whether or not any particular predicted result is actually borne out in practice.

Have we identified the key drivers of actuarial quality? How can they be added to, re-defined or re-structured? Do other drivers apply in sectors apart from life insurance, general insurance and pensions?

The drivers of actuarial quality described in the consultation document seem reasonable. The consultation document also refers to the importance of the ability of the users of actuarial advice to challenge the advice they receive which we also regard as critically important and is in our view also a key factor in encouraging high quality advice.

Section 7: Pensions

In our view Section 7 adequately described the main features of actuarial work in pensions and identifies the main drivers and their treats in this area and the main indicators that theses factors are helping to promote actuarial quality.

Yours faithfully,



G P Degaute
Chief Executive