



**Private & Confidential**

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Dear Mr Kennedy

**Discussion papers on promoting actuarial quality, and monitoring and scrutiny of actuarial work**

This letter represents the comments of the scheme actuaries at AXA on these two discussion papers. Our comments are restricted to the proposals as they affect pensions actuarial work. We are appointed as scheme actuaries to approximately 200 defined benefit schemes including:

- schemes that are still open to new entrants;
- schemes that are closed to new entrants but where benefits are still accruing for existing members;
- schemes where benefits are no longer accruing; and
- schemes which have started to wind up but where the wind up has not yet been completed.

Most of our schemes are very small with assets of under £5m (several have assets of less than £1m), and our largest scheme has assets of approximately £75m. We do not provide an FRS17 service to employers, indeed it is extremely rare for us to be appointed to give actuarial advice to an employer.

We recognise the considerable efforts which have been made in producing these papers, and we welcome the initiative being taken to improve both the quality of actuarial work and the public perception of that quality.

We have no specific comments to make on the paper "Promoting Actuarial Quality".

With regard to the paper "Monitoring and Scrutiny of Actuarial Work", we agree in principle that a combination of "Strategy 1: regulatory support" and "Strategy 2: professional requirements", based on the current requirements of GN48, is the most appropriate way forward. In particular, subject to the details which would need to be clarified on them, we would support:

- Option 1A: develop relevant review and audit skills through education and CPD;
- Option 1B: develop or encourage quality assurance standards or guidance on effective quality control procedures for actuaries and their firms;
- Option 1D: develop more effective arrangements for reporting concerns about actuarial issues or actuarial work;

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- Option 2A: impose quality assurance requirements for relevant actuarial work – extend application of GN48 to corporate restructuring work and assignments for sponsoring employers; and
- Option 2C: administrative monitoring of compliance with quality assurance requirements.

Our main concern is with option 2B: require external peer review which is independent of the actuary and his or her firm – possibly limited to schemes with 20 members or more.

As you know from your visit to AXA, all actuarial advice which is covered by GN48 is peer reviewed by one of the other scheme actuaries. We have a rota to ensure that the same actuary does not peer review an actuary's work too frequently.

Clearly, the introduction of external peer review would result in significant practical and commercial issues for us to overcome. However, more importantly, we believe it would have unintentional negative impacts on our customers.

100% of this work is subject to what GN48 calls a "Type 1 review" (which you are now describing as a "hot review"). If we were required to have an external peer review, we believe we would have to switch to "Type 2 (cold) reviews" for a significant proportion of our work in order to meet the standards of delivery that our customers expect. It would not be feasible, in many urgent situations, to wait for the external peer review to be returned before issuing a document to trustees. In our opinion, a move to Type 2 reviews would be a retrograde step. It is noted that, when GN48 was introduced, it was the profession's intention that Type 2 reviews would be withdrawn as an option at some stage.

Our other concern surrounds the cost implication for our customers. Despite the proposed threshold of 20 members, most of our schemes would be included even though by most measures they would be regarded as small schemes. The cost of external peer review would inevitably be significant compared with their current administration and actuarial costs. We have estimated that our charges would need to be increased by at least 20%, and possibly by up to 50% depending on the circumstances.

We do not have any specific comments on any of the other options, though it is possible that the provision of more details would generate such comments.

We hope these comments are helpful to you.

Yours sincerely

  
Martin Meredith  
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