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30 September 2008

Christina Trickett  
Professional Oversight Board  
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Dear Sirs

**Response to Discussion Paper: Monitoring and Scrutiny of Actuarial Work**

The Association of Consulting Actuaries (ACA) welcomes the opportunity to respond to the Monitoring and Scrutiny discussion paper issued by the Financial Reporting Council (FRC) in May 2008. Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes.

Members of the Association are all qualified actuaries, subject to the code of professional conduct of the Faculty and Institute of Actuaries. The FRC is responsible for the independent oversight of the UK Actuarial Profession and the setting of actuarial technical standards. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of defined benefit pension schemes.

The ACA is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies.

We welcome the document although one has to say that this is on the basis of the broadly "no change" position advocated in the area of pensions, our principal concern. Were that not to be the case and, say, compulsory external independent review of work to be imposed then we would have grave concerns. The Open Forum at the Staple Inn on 16<sup>th</sup> September signalled overall agreement to the status quo as one would expect, aided by education and development of best practice. There are nevertheless some comments and suggestions we would wish to make as well as providing answers to the questions posed. These are included in the appendix to this letter.

We hope you find our comments of assistance.

Yours sincerely

**Phil Wadsworth MA FFA**  
Chairman  
Consulting Practice Committee  
Association of Consulting Actuaries

## Discussion Paper on Monitoring and Scrutiny of Actuarial Work

### Appendix

Generally speaking we welcome the document which not only sets the current scene but explores a number of options. Perhaps naturally we are supportive of the status quo in the area of pensions, which is our prime concern.

Turning to the specific questions, we have only answered those in relation to pensions work since this covers the vast majority of the work undertaken by our members. Nevertheless we suggest that some of our answers can be applied in Insurance Company and General Insurance work.

- 1 *Do you agree with our conclusion that there is enhanced scrutiny of actuarial advice since the Morris Review reported in March 2005?*

Yes, that is our experience and indeed smaller firms have come to arrangements with other similar sized firms to enable "hot" review of work, which is clearly beneficial to the prompt and complete provision of advice.

- 2 *Do you agree with our conclusion that, at the present time, there is only limited monitoring of compliance with professional standards?*

Whilst we agree that there is scope for increasing monitoring in some areas, we are of the view that current monitoring is proportionate to the aim, namely to ensure compliance with standards and the provision of clear and unambiguous advice.

Since we are only involved in pensions, we will not answer questions 3 and 4.

- 5(i) *Do you agree that the Profession should build on existing strategies (under Strategy 1 and Strategy 2) to enhance the scope and application of GN48 and to develop additional tools for regulating support in accordance with Strategy 2?*

Yes

- 5(iii) *Do you support any of the options identified for additional regulatory support under Strategy 1 and for additional professional support in accordance with Strategy 2?*

We will consider each in turn.

Option	Detail	Response	Regulatory Impact
1A	Develop skills through education and CPD	We support this approach and whilst the document points out the packed syllabus it is nevertheless an important part of actuarial work.	Minimal and beneficial
1B	Develop quality assurance standards or guidance	We would support such developments provided they are developed as guidance. Advice, other than checking compliance with regulatory or professional requirements is not capable of a tick box review and needs to cover much more in terms of clarity, completeness and relevance. Kite-marking can be expensive to achieve and maintain as invariably it requires outside review in implementation and regular review (annual?). This is particularly true for small firms of one or two actuaries.	Small unless kite-marking is followed when the costs would outweigh the benefit.
1C	Increase transparency of review processes	This has to benefit the public's perception of the profession and is therefore supported.	Largely a cost for the profession which would translate into a small cost addition to actuaries through subscriptions or levies.
1D	Develop more effective arrangements for reporting concerns about issues or work.	We believe the current arrangements are entirely adequate and therefore do not support.	Unnecessary
2A	Extend quality assurance beyond the regulated activities.	We believe that the majority of firms operate similar standards on all advice and not just the regulated activities. Therefore this extension would cause little change and is thereby supportable.	Minimal as suspect in place in a majority of firms

2B	Require external review, possibly limited to schemes with more than 20 members.	We believe this to be an unnecessary step bringing little, if any gain, but certainly cumbersome and potentially costly. Furthermore, replacing internal "hot" review with external "cold" review can lead to issues of delivery and confidence in the initial work until reviewed. We are therefore strongly against this option.	Unnecessary and very costly with negative benefit to firms.
2C	Administrative monitoring of compliance with quality assurance requirements.	We are against this as it delivers little and does not do away with the need for peer review of the actual advice.	Minimal but of little benefit.
2D	Requirement for independence of advisers to the Trustees and sponsors.	There are good arguments for the separation of advice. However whilst good practice would be for separate advisers this is really a matter for the principals who must, of course, be fully informed about the implications of potential and actual conflicts. Additionally we see no need for the separation of advisers to require the advisers to be employed by different firms. We cannot therefore support this option.	If this resulted in splitting of appointments between firms the costs would be large, resisted by clients and delivering little benefit.
2E	Introduce additional requirements for holders of practising certificates relating to the practice environment in their firm	We consider this to be best left to the firms and their management of quality standards within their disciplines.	Suspect small cost but do not support.
2F	Require practising certificates for external advice as well as regulated advice.	In relation to provision of advices outside the regulated areas we believe the actuarial profession should work on the same base as other professionals who could equally undertake the work. The requirement for practising certificates could put actuaries at a competitive disadvantage and therefore, beyond a light touch requirement for internal Peer Review, we would suggest no further action. To that extent we would not support.	Not supported and negative benefit to firms as they could be put at a competitive disadvantage.

2G	Allow firms as well as individuals to obtain practising certificates.	The requirement for an individual rather than a firm to be the Scheme Actuary is out of step with other professions such as the legal and accounting professions. The ability to appoint a firm as Scheme Actuary would for the larger firms improve flexibility, particularly when an individual actuary leaves a firm or changes his responsibilities within a firm. It would also avoid difficulties that can sometimes arise when a Scheme Actuary is out of the office. Overall we are neutral on this recognising that if such a change were made it would require a change to legislation and also to how disciplinary matters are dealt with by the profession in case of "error".	Small cost to firms initially but could deliver benefits to the larger firms in the longer term.
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- 5(iv) *What would your view be on the regulation of firms that employ actuaries against regulating actuaries only as individuals?*

We consider the regulation of firms that employ actuaries can be more appropriate and cost effective than the regulation of individual actuaries. For the smallest firms the difference is largely cosmetic.

- 5(v) *In what circumstances should the Profession consider adopting Strategy 3 (active monitoring by the Profession, or independently, say through an Actuarial Inspection Unit) for pensions? What additional options should the Profession consider?*

We consider this to be neither necessary nor desirable. If implemented then almost by definition costs would increase. Furthermore since this would be "cold" review there is a danger clients would feel unable to act on the advice until it had been reviewed. Indeed and it may be just cynicism but we would expect lawyers to advise trustees not to act on advice until it had been signed off with inevitable delay. We feel there are no other options to be considered.

- 5(vi) *Do you have any further suggestions of how Profession could promote effective and proportionate monitoring and scrutiny of actuarial work?*

No

- 6 *What strategy should the Profession consider for other areas in which the activities of actuaries are not specifically recognised through regulation? What are the advantages and disadvantages of the various options?*

We believe the profession could consider the introduction of a compulsory peer review requirement for all actuarial advice. One does however need to be careful as to the definition of advice.

7 *We would welcome your assessment of the costs and / or benefits for your organisation, or generally, resulting from these proposals.*

We have covered this in our response to Question 5 (iii).

**Produced by:**

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