

Ms Christina Trickett
Professional Oversight Board
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Dear Ms Trickett

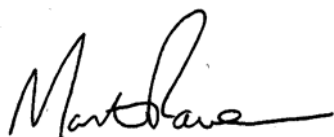
Monitoring and Scrutiny of Actuarial Work

I am writing in connection with the discussion paper issued by the Professional Oversight Board on the Monitoring and Scrutiny of Actuarial Work. I have attached Buck Consultants' comments on the discussion paper which are set out in the Appendix to this letter.

Please note that we have only commented on general questions and those relating specifically to pensions. We have not commented on the questions relating to life insurance or general insurance.

We would be pleased to answer any questions that you have arising from our response to the consultation.

Yours sincerely



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Appendix – Response to the discussion paper “Monitoring and Scrutiny of Actuarial Work” issued by the Professional Oversight Board

Q1. Do you agree with our conclusion that there is enhanced independent scrutiny of actuarial advice since the Morris Review reported in March 2005?

We agree that there has been enhanced independent scrutiny of actuarial advice in the pensions arena since the publication of the Morris review. This has resulted from closer monitoring of the actuarial valuation process by the Pensions Regulator and increased analysis of actuarial assumptions by auditors in the preparation of accounting information.

We are not aware of a large increase in scrutiny by trustees though they do take more interest in the setting of assumptions in actuarial valuations.

Q2. Do you agree with our conclusion that, at the present time, there is only limited monitoring of compliance with professional standards?

There is very limited monitoring by the profession of compliance with professional standards. More meticulous monitoring takes place within actuarial consultancies though our experience, including our knowledge of former employers of our qualified staff, is from the viewpoint of larger firms as defined in Annex C of the paper.

Q5 (i) In pensions, 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 regulatory support in accordance with Strategy 2?

We agree that Strategy 1 and Strategy 2 are the appropriate bases on which to progress the monitoring and scrutiny of actuarial work in pensions. We do not believe that it is necessary or appropriate to monitor the work of actuaries on an active basis as proposed under Strategy 3. As noted in 2.39 and 2.40, this strategy could only be carried out effectively on a firm-based sampling method which would not fit well with the appointment of scheme actuaries on an individual basis.

We also agree that additional tools need to be developed under Strategy 2.

Q5 (ii) If not, why not?

n/a

Q5 (iii) If so, do you support any of the options identified for additional regulatory support under Strategy 1 and for additional professional requirements under Strategy 2?

- **The development of relevant review and audit skills for actuaries through education and CPD (Option 1A)**

We would support this as part of work-based training but not as an addition to the exam syllabus.

- **The development of quality assurance standards or guidance on effective internal quality control procedures for actuaries and their firms. (Option 1B).**

We do not believe that this would add to current best practice except for smaller firms.

This could be supplemented by increased transparency of professional review processes through publication of further research and statistics (Option 1C)

As for Option 1B.

• The development of more effective arrangements for reporting concerns about actuarial issues or actuarial work (Option 1D)

The whistle-blowing requirements imposed on actuaries and, indeed, on all individuals involved in the administration of pension schemes are well understood, and often emphasised and reinforced by consultancies. We do not see the need for any further development in this area.

• Extending the application of GN48 *Compliance review* to corporate restructuring work and assignments for the sponsoring employer (Option 2A)

We would be in favour of extending the scope of GN48 to include corporate restructuring and assignments for sponsoring employers.

• Requiring external peer review which is independent of the actuary and his or her firm – possibly limited to schemes with 20 members or more (Option 2B)

We do not see that this proposal would provide greater safeguards for trustees or members of schemes. Hot reviews would be difficult to carry out for urgent assignments and irreversible action may already have been taken by trustees if cold reviews were the norm. There are also the issues of confidentiality and cost to consider.

• Administrative monitoring of compliance with quality assurance requirements (Option 2C)

For the reason given in Q5 (i) in relation to Strategy 3, we do not see that this could be operated effectively by the profession. A voluntary arrangement would not be seen by the wider public as an effective means of control.

• The introduction of stricter independence requirements for actuaries undertaking relevant work, requiring separate advisors for scheme and sponsor for those schemes with say 20 members or more (Option 2D)

This proposal has merit given current concerns regarding conflicts of interest. The market for actuarial services is also moving in this direction, in particular for larger schemes. However, we do not believe that a threshold of 20 members would be acceptable to scheme sponsors both on the grounds of cost and on the greater amount of time that need to be spent by company management if this was introduced. A much higher threshold would have more chance of being accepted.

• The introduction of additional requirements for individual actuaries holding practising certificates which relate to the practice environment in their firm (Option 2E)

This could adversely affect the competitiveness of smaller firms and sole practitioners. If carried out by the profession, it would place a greater workload on the relatively small administrative capabilities of the profession, adding to the costs. An extension of the role of the senior actuary in conjunction with a relaxation of the demands on individual actuaries may be an acceptable way to manage this proposal subject to careful consideration of the effect on small firms.

- **Requiring practising certificates for external as well as regulated actuarial advice (Option 2F)**

An acceptable definition could be difficult to achieve because of the wide scope of actuarial advice. Assuming that it was possible, we believe that this proposal would need to be combined with a practising certificate for the firm so that compliance could be carried out internally.

- **Allowing firms as well as individuals to obtain a practising certificate (Option 2G)**

We believe that further consideration should be given to this proposal particularly to the transition phase while procedures were being set up to permit firms to comply with the requirements set by the profession. Careful consideration would need to be given to interaction with the current scheme actuary role and whether this could, or should, be relaxed (subject to the necessary change in legislation). In practice, this would recognise the reality of the way in which many consulting firms carry out business.

Q5 (iv) What would your view be on the regulation of firms that employ actuaries as against regulating actuaries only as individuals?

This would be equivalent to the way in which auditors are regulated though the work carried out by scheme actuaries is wider than the audit work carried out by firms of accountants. The corresponding work to an audit is the preparation of an actuarial valuation report though the process is not the same as it is the trustees who set the basis for the calculation of the technical provisions and agree the length of the recovery plan with the employer having taken advice on the covenant of the employer.

However, this would recognise reality in that a medium or large consultancy generally monitors the work of individual actuaries, establishes processes for carrying out actuarial valuations, including the preparation of template reports, and often sets minimum and/or recommended standards for the choice of assumptions when advising clients (subject to the individual actuary having final discretion after consulting colleagues).

Q5 (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? Which additional options should the Profession consider?

We do not see a need for external monitoring by the profession or by an independent body. This would, of necessity, be less than comprehensive and could lead the recipients of advice to have an unwarranted view of the completeness of the process. In extreme cases, it could lead to claims against the profession or the external body if the recipient believed that the process provided a guarantee against errors or poor advice.

Q5 (vi) Do you have any further suggestions of how the Profession could promote effective and proportionate monitoring and scrutiny of actuarial work for pensions?

No

Q6. 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 do not comment on this question as our expertise is confined to the pensions sector.

and in respect of all of these:

Q7 We would welcome your assessment of the costs and/or benefits for your organisation, or generally, resulting from these proposals.

Buck Consultants already carries out a peer review process that goes further than the current requirements of the profession. We are also instigating an internal quality monitoring process of the work of scheme actuaries that is an extension of the compliance review that has been in place for a number of years. As a result, the majority of the proposals would not add to current costs.

External review would add to the costs without, in our view, adding to the protection already offered to trustees through our compliance and monitoring process. We believe that the costs could be material particularly in setting up the appropriate process. There would also be a confidentiality issue.

Allowing firms to be granted a practising certificate, if combined with a reduction in the current requirements for individual actuaries, could reduce costs though there would be likely to be initial cost implications.

General

We understand the purpose and intent of the proposal but please note our concern that it could further add to the cost of running poor beleaguered defined benefit plans. There appears to be a lack of evidence that supports a need to have a comprehensive and independent review of the monitoring and scrutiny of pension's actuarial work. One aspect appears to be the lack of understanding in the Trustees of the small to medium sized pension plans. This may be true but any significant change will affect these pension plans in particular. To conclude, we would only welcome changes that would demonstrably be a benefit to these defined benefits plans.