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Dear Sirs

Discussion Paper on Monitoring and Scrutiny of Actuarial Work

I am writing in response to the consultation document on the above. These comments are on behalf of the Scheme Actuaries of Legal & General and so do not cover any issues relating to other practice areas.

You have asked specific questions – not all of which we have answered. The points we wish to raise do answer specific questions as follows:

Q5 Do you agree that the Profession should build on existing strategies to enhance the scope and application of GN48 and to develop additional tools for regulatory support in accordance with Strategy 2?
No

If not why not

Because we feel that the current system already provides adequate controls of actuarial advice. Most firms have additional requirements on top of GN48 in any case. Clarifying how GN48 should be applied (for instance in record keeping and whether the reviewer needs a practicing certificate) would improve the current system without placing extra requirements on actuaries who already have good monitoring of actuarial advice.

However, we feel it would be helpful to comment on the specific suggestions made.

If so do you support:

a) **The development of relevant review and audit skills for actuaries through education and CPD**
Certainly this could be added as a brief session at the professionalism course that all new qualifiers have to attend

d) **Extending the application of GN48 Compliance Review to corporate restructuring work and assignments for the sponsoring employer**

Whilst many actuaries will already have significant pieces of work on these topics reviewed, the requirement that they should always be will add unnecessary delay and cost particularly for small assignments. In addition there are confidentiality issues involved particularly with these jobs and employers would not necessarily welcome the extra layer of exposure.

e) **Requiring external peer review which is independent of the actuary and his or her firm – possibly limited to firms with 20 members or more**

We presume that this means schemes with 20 members or more, as per the main body of the text.

We are strongly opposed to this.

- Work is often completed under great time pressure and external peer review would only be practical after the event. This would have limited usefulness.
- Anecdotal evidence is that current internal reviewing mostly shows up not compliance or accuracy issues rather than suggestions are made which improve clarity. By moving to cold external peer review this would be lost
- Confidentiality of data is much harder to ensure when reviewing moves from internal to external reviewers
- This would increase the cost disproportionately for the smaller schemes to be affected
- Other countries which use external peer review have adopted a much more proportionate response than the suggestion here. For example in Canada the regulator can appoint an external review actuary and in Ireland there is mandatory external peer review on one in 10 pieces of work.

f) [Administrative monitoring of compliance with quality assurance requirements](#)

Large firms employing actuaries will normally have a regular internal audit which reviews this. Perhaps this is something that could be used rather than requiring a new task

g) [Requirement for separate advisors for scheme and sponsor for those schemes with 20 or more members](#)

Again this is a disproportionate expense for smaller firms and unnecessary where employer and Trustees are in broad agreement. Already actuaries are aware of conflicts of interest and, where a previously amicable arrangement changes, will stop advising the employer. We are strongly opposed to this.

i) [Require practicing certificates for external as well as regulated actuarial advice](#)

We are opposed to this as an unnecessary restriction. In particular, it would slow the development of junior actuaries who are gaining experience to become scheme actuaries.

j) [Allowing firms as well as individuals to obtain a practicing certificate](#)

This would certainly save a lot of money and time for the larger groups of actuaries but would presumably place a lot of pressure on the senior actuary who would have to decide who could sign what. Arguably the senior actuary would have direct knowledge of the experience level of the actuaries and can ensure a gradual change to “fully competent” scheme actuary with appropriate levels of monitoring.

[In what circumstances should the profession consider adopting strategy 3 for pensions? Which additional options should the profession consider?](#)

In this scenario reviewers would be appointed by the profession or FRC. There would therefore be fewer problems with data sensitivity. It could be prohibitively expensive but possibly OK if used sparingly as in Canada.

[Q7 Assessment of costs and/or benefits for your organisation, or generally resulting from these proposals.](#)

Many of the extra costs incurred as a result of these suggestions would be passed on to pension schemes (in some cases the employers). In either case, they will be perceived as an additional reason to move away from “expensive” final salary type arrangements to “cheaper” money purchase type plans which the profession feels will not generally provide adequate provision for retirement. It doesn’t seem appropriate that the profession should take action that might be seen to hasten this.

I hope that these comments prove useful in your continued consideration of these matters.

Yours faithfully

Bill Lumb

Fellow of the Institute of Actuaries