



30 September 2008

Ms Christina Trickett
Professional Oversight Board
5th Floor Aldwych House
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Subject: POB discussion paper - Monitoring and Scrutiny of Actuarial Work

Dear Ms Trickett

Mercer Ltd is a global leader for HR and related financial advice and services. In the UK, our client base includes employers and trustees providing occupational pension schemes to employees in all sectors of industry and we provide pension advice and services to 60% of companies in the FTSE 100.

I am pleased, on behalf of Mercer Ltd, to have an opportunity to comment on the POB's discussion paper on the Monitoring and Scrutiny of Actuarial Work. As a firm, we fully support the need for actuarial work to be properly prepared and reviewed. We have met the requirements for peer review in GN48 for many years and have developed processes to monitor compliance with these and with our own, internal, standards. However, although we agree it is important for the POB to be concerned with the minimum best practice standards actuaries must comply with, we do not believe it has a role in imposing higher standards: the actuarial profession is responsible for setting standards and POB's role is to intervene where these appear likely to prove inadequate.

Currently, we believe that the actuarial profession has taken, or will take, sufficient steps in the pensions sector to impose adequate benchmarks. Market forces also operate to ensure that actuaries themselves, or their employers, take steps to oversee compliance with these standards, or to impose their own monitoring standards, which are at least as strong.

The POB is certainly correct that there is little external review of pensions actuaries work, specifically against actuarial guidance. However, as we observe in our detailed comments (which are attached in an appendix to this letter), regulators and auditors have various opportunities to review work done. Although they will not explicitly monitor work against actuarial guidance, they will comment on its appropriateness and so, indirectly, a review takes place. This can also serve



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to identify where in-house views appear to distort the independence of the advice given. Consequently, we are not convinced of the value in imposing additional requirements.

We would be happy to meet with you to discuss any of the issues raised, or if you require further explanation of any of our comments.

Yours sincerely

Deborah Cooper



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Appendix

Question 1 – do you agree with our conclusion that there is enhanced independent scrutiny of actuarial advice since the Morris review reported in March 2005?

Advances in technology and improved communication have enabled increased scrutiny in all walks of life. We have no reason to believe the actuarial profession is different in this respect. The experience in our firm is that advances in word processing and electronic filing have made it easier to set and maintain consistent standards.

There has also been increased regulatory supervision:

- The FSA has established itself as regulator in some areas of actuarial work, influencing the actions actuaries can take and sometimes weakening standards that might otherwise be introduced, on the grounds that they could be damaging to the financial services industry.
- The Pensions Regulator has replaced Opra, and has taken a more proactive approach to regulating both trustees and the advice given by actuaries to corporate and trustee clients;
- The actuarial profession still exists as a regulator, but is now supplemented by BAS and the POB.

So we would take issue with the comment in the foreword to the discussion paper that a number of gaps in standards exist 'especially' in pensions. There is always room for improvement, but we have no reason to believe that compliance with and monitoring of professional standards is any weaker in our sector of the profession than in any other.

The position that was taken in the Morris review and now appears to have been adopted by the FRC is that, because of information asymmetries, clients are not capable of judging the quality of the advice given to them. This in turn can lead to market failures, since actuaries that give inadequate advice will not be penalised by losing their appointment. However, the evidence that there is no 'market' in advice is limited – we expect our clients to review our appointments regularly and have both benefited and suffered from changes in appointment due to dis-satisfaction with the incumbent.

Although we are not complacent about the difficulties that can arise, there is a risk that excessive concern over the asymmetry in information will not be beneficial to clients. The actuarial profession has taken steps to ensure that advice is presented sympathetically.



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Such steps can never be foolproof, since (to the extent that clients need to take advice from experts) it is important that they are kept proportionate, to avoid the costs imposed from deterring people from seeking appropriate advice.

Question 2 – do you agree with our conclusion that at the present time there is only limited monitoring of compliance with professional standards?

In our experience, monitoring of compliance is carried out quite comprehensively. Mercer has well established processes for peer review and monitoring best practice, including compliance with professional and technical standards. We have consistent monitoring practices throughout the firm, which take into account the requirements of the different regulatory regimes (the profession, the FSA and TPR) colleagues operate under. The companies and trustees to whom we market our services expect us to be able to demonstrate that we have active strategies to ensure we maintain high levels of service.

We have no reason to believe that our practices (in principle) are materially different to those in other large consultancies – market forces would dictate that our competitors also operate similar oversight as ourselves. Since the majority of pensions actuaries work for the large consulting firms, it seems unlikely that monitoring of compliance is 'limited'.

The comments in the text box on page 10 conclude that all firms regard quality assurance as important and have internal arrangements to ensure quality. Necessarily, different firms will have different practices: this will be a function of size and organisation and, because many quality assurance systems rely on new software, will also depend on the way new software has been adopted. A variety of approaches need not be seen as a weakness, but rather a welcome diversity. If one method proves superior, particularly if it is preferable to clients, it will quickly become the norm. However, it should be expected and accepted that the 'market approved' approach is likely to be sector and size specific.

Question 5(i) – 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?

It would be complacent to suggest that GN48 could not be improved, or that standards of professionalism are currently adequate. However, we are not sure that greater regulatory intervention is necessarily the optimum approach.



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Question 5(ii) – if not, why not?

N/A

Question 5(iii) – if so, do you support any of the options for additional professional requirements under Strategy 2?

We agree with the conclusions in the discussion paper that any actions taken to improve the operation of the existing peer review system must be proportionate. We agree that Strategy 3 appears overly burdensome, particularly since in many cases the consequences of the advice given by pensions actuaries is already subject to independent scrutiny. For example:

- the Pensions Regulator reviews of outcome of the advice given by scheme actuaries as part of the statutory funding valuation and has the power to request information and investigate further;
- advice given to corporate clients in producing company accounts is subject to audit.

Under Strategy 1 we agree there would be value in encouraging actuaries to develop relevant review and audit skills using CPD. We do not think this should be explicitly added to the education syllabus for trainee actuaries, but it could be an option for post qualified actuaries to pursue (including actuaries who do not complete the Fellowship).

Our preferred option under Strategy 2 is Option 2A – that is, to extend the requirements for peer review to a wider category of actuarial work. We can also see some merit in Option 2E. However, we note that there is no regulatory requirement for sponsoring employers to obtain advice from an actuary, except to comply with FRS17 or IAS19, so any new requirements imposed must be proportionate.

Question 5(iv) – what would your view be on the regulation of firms that employ actuaries as against regulating actuaries only as individuals?

The FRC will have experience of regulating audit firms. We believe differences in the work done by auditors and actuaries are likely to mean that the regulatory models are not directly transferable. In particular:

- auditors review decisions taken by other parties, such as company directors, whereas actuaries provide advice to other parties to help them make decisions;
- the firms that employ actuaries vary and the employees include people from different disciplines, many of whom will be regulated by their own professions.



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The Profession has focussed on regulating the provision of advice which is not straightforward since it is often particular to the circumstances and non-standard.

Mercer is FSA regulated, and its employees include actuaries, lawyers and accountants. Those actuaries and other consultants who give regulated advice are FSA threshold competent. The firm therefore has systems that are compliant with the FSA's requirements, although for those areas that do little or no regulated work some aspects of the compliance regime becomes a burdensome tick box exercise. This can undermine more generic compliance requirements, although these are something the firm strives hard to reinforce. Consequently, our experience of regulated firms is not entirely satisfactory.

In many circumstances, the groups that work on a single project can be multi disciplinary. Regulating the firm would require complicated differentiation between individuals that would be cumbersome to enforce and we do not see that it would add value or enhance the credibility of the Profession.

Question 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? Which additional options should the Profession consider?

We do not believe the profession should consider this option, or additional options mentioned in the discussion paper.

Question 5(vi) – Do you have further suggestions how the Profession could promote effective and proportionate monitoring and scrutiny of actuarial work for pensions?

The profession already encourages good practice via the education syllabus (for example, the modelling course, C2, explains the importance of audit trails) and its professional conduct standards and professionalism courses. If it introduced CPD covering relevant review and audit skills this would indicate strongly its expectations.

We do not believe that the pensions sector needs special measures in this regard.



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Question 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?

It could consider strengthening its professional conduct standard so that the relatively high level of peer review that applies to pensions actuaries is applied more generally across the profession.

Messages from, and examples set by, senior members of the profession would also provide a strong impetus, since these individuals often set expectations of behaviour in their firms.

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

Mercer already operates extensive internal peer review (Type 1 under GN48) of all advice provided to clients (that is, not only the advice covered explicitly by GN48). We also operate Type 2 reviews – a team visits offices to review a sample of all the advice provided to clients, ensuring that Mercer's best practice standards, as well as the profession's standards, have been complied with. The team provides feedback to the office and follows up subsequently to ensure that any identified weaknesses have been corrected.

Thus, the proposals in the document are unlikely to impose new costs or benefits on us.

If the FRC strengthened its proposals to include external review, for example, then this would impose additional costs on us and indirectly on our clients. Although there can be benefits in getting independent advice (a 'second opinion'), at this stage we do not identify material benefits in independent peer review.