



**The Professional Oversight Board
(POB)
Discussion Paper**

**Monitoring and Scrutiny
of Actuarial Work**

**Response from
The Pensions Management Institute**



PMI response to the Professional Oversight Board Discussion Paper: Monitoring and Scrutiny of Actuarial Work

Introduction

The Pensions Management Institute (PMI) is the professional body for people working in the pensions sector. The PMI's members (currently over 4,000) work as pensions managers, consultants and technical specialists in consultancies and insurance companies. Many are also actuaries, pensions lawyers or company secretaries. Their experience is therefore wide ranging and has contributed to the thinking expressed in this response.

The PMI's Response

1. In making this response the PMI would wish to concentrate on Pensions issues, but believes it is important for POB to have a consistent treatment of actuarial work across all areas of the profession's work, and PMI notes that the work of some actuaries is currently more heavily regulated than others. We can see no reasons, other than historic, why Strategy 1 (regulatory support) should only apply to life and general insurance, and not to pensions.
2. PMI believes that in the current climate the disadvantages of Strategy 3 (active monitoring of Pensions work), outweigh the perceived advantages. We believe the current Peer Review regime has much to commend it; it should be allowed to evolve over time, and only if there is strong evidence that it doesn't work (e.g. High profile scheme failures which can be attributed to the role of the scheme actuary), should this option be re-addressed.
3. The POB paper highlights the role of the Regulators. However, PMI questions how are the Regulators supervised? The FSA has recently been criticised over Equitable Life by the Parliamentary Ombudsman, and more recently by the press over its role at Northern Rock. We accept that in a risk based environment it is healthy for some failures to occur, and no doubt lessons have been learnt. We do not believe that tPR is equipped to audit the work of scheme actuaries. Unlike OPRA, tPR has no qualified actuary in a senior management position, and currently relies mainly on seconded actuaries from the main pension consultancies.
4. The PMI believes that the operation of GN48 since its introduction in 2004 has contributed significantly to the increased acceptance of actuarial work performed by pensions actuaries, by the users of such work (including PMI members). We would support the continuation of its role as the main driver for monitoring actuarial work in the pensions area.



5. PMI notes the check-list of options in paragraph 5.47, and sets out its comments on each below. We do not see each as being mutually exclusive, and the best way forward may be a combination of a selection of these proposals, perhaps being adopted on an incremental basis.

1A *Develop relevant review and audit skills through education and CPD*

The PMI is an educational body and supports the extension of knowledge and skills through formal learning, and continuous professional development. Audit skills could become part of the compulsory Professionalism CPD requirements for qualified actuaries, perhaps by extending the minimum number of hours undertaken in a year.

1B *Develop or encourage quality assurance standards or guidance on effective internal quality control procedures for actuaries and their firms*

The extension of “best practice” to all actuarial firms is to be welcomed, subject to any cost constraints. How sole practitioners could use such standards would have to be resolved.

1C *Increase transparency of professional review processes*

Greater clarity and transparency is to be welcomed. Perhaps the publication of suitable case studies by Regulators would be helpful?

1D *Develop more effective arrangements for reporting concerns about actuarial issues*

Whistle-blowing by a scheme actuary has been in place since April 1997 under S 48 Pensions Act 1995. Coupled with the profession’s peer review requirements, we feel the necessary safeguards of client interests are now in place. We have reservations whether widening the whistle-blowing obligations to all pension actuaries, as recommended by Morris, would provide any greater security.

2A *Impose quality assurance requirements for relevant actuarial work*

To widen GN48 to cover all pensions work would involve very little difference in practice. We don’t feel qualified to comment on other areas of actuarial work.

2B *Require external peer review independent of the actuary or his firm*

Given that this apparently works well in Ireland for regulated pension work, PMI would be happy to see the principle extended to the rest of the UK, apart from the smallest of schemes. The cost implications would have to be carefully considered before introducing such a change. Any additional regulatory costs can be particularly onerous on smaller schemes. In this context we note that there is no clear definition across the board of what counts as a “small” scheme; perhaps 50, or even 100, would be better than 20, or 12, as has been used elsewhere.



2C *Administrative monitoring of compliance with quality assurance requirements*

We recommend this option is kept in abeyance unless there is clear evidence of abuse of the current arrangements. We see no benefit in this being a voluntary arrangement.

2D *Stricter independence requirements for actuaries undertaking relevant work*

If both trustees and employer have separate actuarial advisers, the work of both will have to be separately peer reviewed, with all the additional cost implications. We would not support this as a mandatory requirement, but suggest this be encouraged as “best practice” for larger entities.

2E *Introduce additional requirements for individual actuaries holding practicing certificates which relate to the practice environment in their firm*

We would have thought that the requirements on pensions practice certificate holders were onerous enough, without adding an additional layer of complexity.

2F *Require practicing certificates for external as well as regulated actuarial advice*

Unless such certificates could be issued by Employers, we believe this could have unintended cost implications.

2G *Allow firms as well as individuals to obtain a practicing certificate*

Although this would be a fundamental change, requiring legislation, it reflects many current client relationships in practice, as it will be Employers (of actuaries) rather than the individual employees who will hold professional indemnity insurance cover. Such a change would more closely align the regulation of the actuarial and accountancy professions, but may not be acceptable in non pension areas of actuarial practice. PMI would not object to such a change, but would want to see the costs involved kept to a minimum.

6. Whilst we accept that the POB has a job to do, and its costs to date have been modest, we are concerned at the escalation of regulation, in whatever form, where expenses are incurred which could otherwise be used to improve the benefits for pension scheme members. We understand that the FRC is funded by a voluntary levy on (amongst others) the largest pension funds. We believe there is a danger of some pension funds not co-operating in the payment of FRC levies, thus causing further damage to relationships.

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