

Private & Confidential

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Our Ref: Response to POB
consultation paper

Dear Christina

**Professional Oversight Board
Discussion paper: Monitoring and Scrutiny of Actuarial Work**

This is the reply from Punter Southall Limited to the above consultation paper.

It should be borne in mind that Punter Southall is a pensions consultancy and our comments are made from that perspective. In particular we have not responded to question 3 (concerning life insurance) and question 4 (concerning general insurance).

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

Yes.

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

We agree with the discussion in the paper up to a point. GN48 Compliance Review, where it applies, does lead to significant monitoring of compliance with professional standards. We also agree in principle that it is reasonable to extending the scope of GN48. Bearing in mind the large number of small and medium sized final salary pension schemes we consider that it may not be cost effective or appropriate to monitor compliance to a greater degree.

Q5(i) In pensions [Section 5], 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?

Yes.

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?

Option 2A

We are in favour of extending the application of GN48 Compliance review to corporate restructuring work and assignments for the sponsoring employer. However as noted in the paper there are limited actuarial standards covering such work at present and this work is often time critical, which might result in such reviews taking place after the advice has been issued.

Option 2B

We are firmly not in favour of the introduction of external peer review. We have reservations about whether external peer review would work satisfactorily in practice, in particular ensuring that client confidentiality is maintained.

A “hot” peer review i.e. one that takes place before a piece of work is issued is generally more useful to the client than a “cold” review after the work has been issued. Clients, who will ultimately meet the costs of an external peer review, are more likely to see a “hot” internal review as better value for money than a “cold” external review. If it were to be introduced then there certainly should be minimum scheme size to avoid small schemes being subject to excessive costs.

Option 2D

We accept that it is in general not appropriate for one individual actuary to provide advice to both trustees and sponsors of a defined benefit arrangement. However we do not consider that it is necessary to require that the two different advisers be employed by different firms. Since the sponsor would ultimately meet the cost of employing different advisers we consider that this decision should be for them to make.

Option 2F

We would rather not see the introduction of this option which could potentially put the actuarial profession at a disadvantage compared to other professionals who could potentially carry out the non-regulated advice.

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

We do not see any reason for moving from the current approach of regulating individuals.

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 agree with the discussion in the paper, in particular with the concerns that the costs of such monitoring could prove to be prohibitive for all but the largest schemes.

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?

Many firms have introduced an internal peer review process that covers all external actuarial advice and not just advice falling within the remit of GN48 at present. We suggest that this might be considered. For this to work in practice it is clearly important that “actuarial advice” is clearly defined.

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

We are concerned that requiring the appointment of separate firms could lead to increased costs for scheme sponsors. We do accept that the appointment of separate firms could be appropriate in some circumstances however we consider that any additional regulatory support introduced in this area should be principles-based rather than prescriptive.

Yours sincerely

By email

**David Cule FIA
Principal**