



Sir John Bourn
Chairman
Professional Oversight Board
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Dear Sir

Response to POB DP “Monitoring & Scrutiny of Actuarial Work

The Actuarial Profession welcomes this discussion paper, upon which we offer some high level observations and comments for the Board’s consideration.

The objectives of Monitoring and Scrutiny.

We believe that the monitoring and scrutiny of actuarial work has two principal objectives:

- to improve the quality of individual work products before their final delivery to the client,
- to avoid the undisclosed use of assumptions or methods not generally accepted by peers i.e. the avoidance of atypical house views.

These two drivers are fundamentally different and as a result we suggest that they can best be scrutinised in two different fashions. We are happy to expand upon this but in brief;

- the former requires a ‘hot’ review, when a peer reviews work before it is sent to the client, which can deliver an immediate improvement in quality (particularly with regard to the detection of errors). Clients can see an immediate benefit in this and are therefore likely to be willing to pay for it. Hot reviews can be done by a member of an actuary’s own firm or, for sole practitioners, by someone in another firm.
- the latter requires an independent review. Typically this is a ‘cold’ review, usually done by sample only well after the issue of most of the reports sampled. This is less easy to

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explain to clients, who would be less ready to pay the costs involved. There are practical difficulties for external cold review. If the review is done by a competitor firm this will raise competition issues. If, on the other hand, the review is done by a central monitoring unit then there will inevitably be significant cost implications for a small profession operating in a wide range of areas.

A principles based approach.

We have found the Board's development of principles for the Profession's regulatory regime to be a very worthwhile approach. We suggest that the Board's thinking and recommendations on monitoring and scrutiny of actuarial work would benefit from a similar approach. We recommend that the Board establishes clear and agreed principles for this important area of regulation. We think it important that any principles can be applied across all practice areas of actuarial work and that the principles be capable of clear and simple communication to the external user of actuarial work.

The Board will have its own views on appropriate principles but we would hope that they would take account of;

- the objectives of scrutiny and monitoring,
- the nature of the work and of the client/end user,
- whether the work is reserved for actuaries or not,
- the cost of the scrutiny relative to the benefits for the client, and
- the types of scrutiny available.

The principles could form recommendations to the Actuarial Profession.

Comparison with Accountants

We appreciate that the Oversight Board will have drawn on its experience of regulating accountants in developing its thinking for actuaries'. It seems appropriate to us that the Board should aim for similar standards across the professions it oversees.

Accountants may be separated into those who work 'in industry' and those who work in practice. Those in practice may be further separated into those carrying out audit work and those carrying out non-audit activities for external clients.

One major difference between the regulation of actuaries and that of accountants is that accountants working in practice are regulated at the firm level. However this does not apply to

accountants working 'in industry'. Most actuaries are employed either 'in industry' or by consulting firms not controlled by actuaries (e.g. accountants, employee benefit consultants, etc). Whilst we accept that this may require more scrutiny and monitoring of the individual actuary, we suggest that the overall regulatory burden ought to be no more onerous for actuaries than for accountants.

We hope that this feedback is of use to the Board in developing its thinking. We would be happy to discuss this response with you either at one of our regular meetings or on a specific occasion.

Yours faithfully,

Richard Maconachie
Head of Professional Regulation

please reply to the Faculty, Edinburgh