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Dear Sir/Madam

POB Discussion Paper: Monitoring and scrutiny of actuarial work

Thank you for the opportunity to comment on this paper. This response has been prepared by the Benefits Practice of Watson Wyatt and therefore primarily reflects pensions-related issues, but input has also been obtained from our Insurance and Financial Services Practice on sections 3 and 4. Watson Wyatt is a global consulting firm which advises over half of the 100 largest corporate pension schemes in the UK, and the firm as a whole employs over 300 qualified actuaries in the UK.

We would accept that there is only limited 'external' monitoring and scrutiny of a lot of actuarial work. However, although we can understand that this creates some adverse perception issues, we do not believe that in practice it necessarily leads to significant problems with the quality of actuarial work, which we consider can be adequately served by a rigorous education system and robust internal quality control procedures. In the area of pensions, which has already been subject to substantial recent increases in its regulatory and compliance burden, we cannot see that the extra costs arising from the introduction of new requirements for greater external scrutiny of actuarial advice could be justified by the resultant modest benefits to the users of that advice.

We would particularly stress that, to avoid inefficient duplication, any new proposals should dovetail appropriately with existing arrangements for monitoring and scrutiny, including firms' own quality assurance standards.

Our comments and responses on a section-by-section basis are attached. If you would like to discuss any of the points we have raised, please get in touch.

Yours faithfully

Graham Everness
Senior Consultant

POB Discussion Paper: Monitoring and scrutiny of actuarial work

Section 1: Introduction

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. In the pensions area, following the introduction of the new funding regime in 2005, clients are now much more questioning and the Pensions Regulator has more involvement than its predecessor Opra. Accordingly, the position with regard to the level of independent scrutiny is significantly different from that prevailing when Sir Derek Morris reported. In this context it is though worth noting that the general pensions levy (out of which the Pensions Regulator is funded) has more than doubled since the days of Opra, which helps to illustrate the point that increased scrutiny has a financial cost.

Section 2: Monitoring and scrutiny options

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

Yes, we agree that it is 'limited', but would stress that within this 'limit' there is considerable compliance monitoring on a 'peer review' basis, and the value of this should not be overlooked.

Sections 3 and 4: Life and General insurance

Many firms, including Watson Wyatt, have strong internal quality control standards. Any proposal to impose across-the-profession quality assurance standards must take into account these existing firm-specific procedures and must not lead to duplication or otherwise increase the compliance costs without any discernible enhanced benefit for the consumer.

It also needs to be appreciated that firms like Watson Wyatt do not wholly comprise actuaries, and so (under current regulatory provisions) it is difficult to see how anything could be applied by the BAS at a firm level.

Section 5: Pensions

Q5(i) In pensions, 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, to the extent that it is considered that any gaps in current monitoring and scrutiny processes need to be filled, we agree that it would be best to do this by building on existing practice. We would however comment that it should not automatically be assumed that the compliance required by the current GN48 is, overall, beneficial. While there will no doubt be a few cases where this has led to an enhanced review procedure, in the vast majority of cases an essentially unchanged procedure has remained adequate but there has still been an extra cost associated with the 'paperwork' required to demonstrate compliance.

Q5(ii) If not, why not?

[Not applicable]

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?

In general, we think that the table in 5.47 describes the advantages and disadvantages of the various options well.

Under Strategy 1, we would support Option 1A and, provided that it is made clear that the guidance is only one suggested approach and that other firm-specific approaches could be equally valid, Option 1B.

Under Strategy 2, we suggest Option 2A (provided that the paperwork to demonstrate compliance is light-touch) and could also see some merit in 2C and 2E. We are opposed to 2B and 2D on practicality and likely cost grounds, and would not wish to see 2F without 2G.

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

This is a good question on which we have an open mind. Detailed consideration needs to be given to the pros and cons of potential changes and these would best be analysed by cross-firm working parties. From our point of view, the key point is whether or not such a change would reduce or increase the compliance burden in terms of the cost that would need to be passed on to clients.

In principle, we have a preference for regulating specific types of work or products rather than regulating specific individuals who might carry out that work or deliver that product. Regulating firms that employ actuaries would be a step towards this, although it would still leave a gap (applicable to non-reserved work) for firms that do not employ actuaries but carry out work that is actuarial in nature.

The practical effect of making such a change would differ by firm. Actuaries are so pre-eminent in the running of some firms that the current regulation of individual actuaries is in practice tantamount to regulating the whole firm, whereas in other firms the influence of actuaries is much lower.

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?

The only circumstances in which we think that Strategy 3 options might appropriately be considered are where it has been demonstrated that all available options under Strategies 1 and 2 are inadequate and that the extra benefits anticipated from a Strategy 3 option are sufficient to justify the associated extra costs.

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?

As already indicated, our view is that if a need is perceived to improve monitoring and scrutiny of actuarial work the most appropriate ways in which to seek to deliver this are through the profession's

education system and through ensuring that current 'best practice' processes (such as formal peer review) are invariably and properly carried out.

Concluding question

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

In simple terms, any proposal to increase the monitoring requirements would lead to an increase in our costs which would ultimately end up being borne by our clients. With the possible exception of a greater public perception that 'things are being done right', it is not clear to us that there would be much in the way of benefits to compensate for such extra cost.

Our perception is that the users of our services do not see a lack of suitable monitoring and scrutiny as a problem that needs fixing, and they would be resistant to any extra costs that would result from the imposition of additional requirements in this area.