

Morris Review of the Actuarial Profession: Interim Assessment

Over the next 4 pages the interim assessment report is summarised using the Review's own words as presented in their Executive Summary. This uses sequential paragraph numbering and these are given below for ease of reference.

Actuarial Profession

Overview

4. The defining feature of virtually all actuarial work is that it seeks to characterise, measure and analyse an uncertain future. The review has no reason to doubt that the overwhelming majority of actuaries in the UK are dedicated, skilled professionals providing important and useful advice to the best of their abilities, with commitment, integrity and a strong sense of duty.
5. The profession has been too insular... and has been slow to adopt new approaches or techniques.
6. Too much has been expected of actuaries and, explicitly or otherwise, too much has been promised by them. Clients have looked to actuaries to provide certainty, and actuaries have often appeared to provide it.
7. There is insufficient transparency in actuarial advice.
8. The review acknowledges the critical role of actuaries' skills in assessing long-term liabilities but questions whether actuaries are necessarily best-placed to advise on asset allocation or fund manager selection. The review provides an opportunity to reflect on whether users have become over-reliant on actuaries for services beyond long-term liability analysis.
11. Against this, actuarial expertise must not be confused with an ability to forecast the future. Moreover, an actuary who, in the early 1990's, persisted with forecasts of inflation and interest rates that in the event turned out to be correct would at that time have lost a substantial amount of credibility.
12. [on stock market movements] actuaries, as the relevant experts, were too slow to adjust to the changing circumstances or reflect sufficiently on the likelihood or the consequences of large adverse movements;

Competition

16. Over the last decade there has been significant entry by small and medium sized independent firms to the actuarial services market as well as entry by the big four accountancy firms. Most users of actuarial services face a reasonable degree of choice of provider. There is a degree of market concentration in advice to the largest pension funds.

17. The market for actuarial advice is characterized by relatively low levels of market testing and actual switching of provider.
18. There is often a significant “understanding gap” between users of actuarial services and their advisers.
19. This review proposes to
 - encourage greater market testing of actuarial advice by users of these services;
 - discourage the use of full-service appointments to pension funds;
 - improve the way actuaries communicate with users in order to narrow the ‘understanding gap’ between actuarial advisers and their users;
 - increase the level of user knowledge and understanding of actuarial matters;and
 - introduce greater scrutiny and challenge of actuarial advice.

Regulation

23. The review’s current assessment is that the self-regulatory approach has not adequately protected the public interest. [There has been] inadequate protection of the interests of consumers and scheme members and the perception that commercial interests may, in some cases, have superseded the interests of the wider public.
26. The review’s current thinking is that independent oversight of the profession’s self-regulation may be the best way to combine professional actuarial input into the regulatory framework with sufficient independence from the profession.

Reserved Roles

29. The review’s view is that it is essential to overall financial stability that assessments of long-term liabilities of insurers or pension funds are done, and done well. Currently, it is widely recognised that, as a group, only actuaries have the required skills to perform these functions.

The review concludes that, at least in the short-term, there is a need to continue to reserve specific roles to actuaries in the life and pensions areas.

Public Interest and Accountability

30. Actuaries face multiple and often conflicting responsibilities: actuaries have duties to their employer or client, duties to the statutory regulators if holding reserved roles and duties to the profession for adherence to professional standards of conduct. There is a real need to provide clarity over to whom actuaries are accountable and for what.

Standard Setting

33. The review concludes that the Profession’s approach to standard-setting in the past has failed to ensure a coherent, consistent and comprehensive set of standards which can then be relied on by users of actuarial services as a guarantee of best practice advice. Nor has the Profession ensured that standards are met. The Review’s current thinking

is that the Profession should establish an independent Actuarial Standards Board that would set, revise and regularly up-date professional actuarial standards.

Scrutiny and Discipline

35. Given the understanding gap that exists between users of actuarial advice and their advisers, it is essential to introduce formal scrutiny, either through audit or peer review.

Government Actuary's Department

36. The review asked a number of questions about the quality of service GAD provides, and the rationale and continuing need for a separate department. [Responses were received from a variety of individuals and organizations, including some of GAD's competitors. The review analysed GAD's services under the headings of:]
- advice to public service pension schemes;
 - broad comparability of pension schemes and advice on pensions aspects of Public Private Partnerships (PPP)/Private Finance Initiatives (PFI);
 - social security;
 - general pensions policy advice;
 - population projections and associated demographics;
 - occupational pension scheme survey; and
 - advice to overseas clients.
37. The review is considering removing the statutory requirement that GAD advise these public sector pension schemes, so that the administrators of the public sector pension schemes have a choice of provider.
38. The review recognizes the need for independent sign-off of these statements of [broad] comparability [issued as part of PPP/PFI].
39. The review recognizes the need for independent sign-off of the National Insurance Fund advice by the Government Actuary.
40. Clients were satisfied with GAD's ad-hoc pensions policy advice. The review notes the use of the private sector on pension areas where GAD may not have all the expertise. The review considers this to be a matter for the relevant government departments.
41. In the review's view there is unnecessary fragmentation of demographic expertise and potential efficiency and quality gains from relocation of the work. The review is considering the potential benefits of relocating this work to the ONS. In relation to the pension scheme survey the review is considering options to relocate this work to the ONS or to The Pensions Regulator who will have greater powers of data collection.
42. GAD's work overseas is largely won on the basis of competitive tender. The majority of GAD's overseas clients were highly satisfied with the work. The review is not currently proposing any changes in this area.

44. The review currently believes that there is a continued role for the Government Actuary, in that there is a need for independent actuarial advice to the government on the National Insurance Fund and on statements of broad comparability for public service pensions. However, the review may explore alternative mechanisms that have been proposed which ensure independence.