

Circular No: 2010
Committees: Actuarial Committee
Date: October 2nd 2018
Our Ref: JM/JB 4.1

Dear Colleagues,

SPP RESPONSE: INSTITUTE AND FACULTY OF ACTUARIES PROPOSALS FOR MONITORING ACTUARIAL WORK

We have responded to the Institute and Faculty of Actuaries on its consultation document on the above.

A copy of our response is below for your information.

Kind regards,

John Mortimer
Secretary

The Society of Pension Professionals
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Institute & Faculty of Actuaries Consultation Document: Monitoring of Actuarial Work: Comments by the Society of Pension Professionals

Personal Details

- | | |
|--------------|-----------------------------|
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Professional status

- Are you an IFoA member? No
- If you are an actuary, what is your main practise area?
 - Enterprise and risk management
 - Finance and investment
 - General insurance
 - Health and care
 - Life insurance
 - Pensions
 - Resource and environment
 - Other (please specify)
- If you are a Member, which category of Membership do you hold?
 - Affiliate
 - Associate
 - Certified actuarial analyst
 - Fellow
 - Honorary fellow
 - Retired
 - Student
 - Student actuarial analyst
 - N/A
- Are you a Practising Certificate(s) holder?
 - Yes
 - **No**
 - N/A

5. If 'Yes', which Practising Certificate(s) do you hold? (select up to three)

- Chief actuary (life)
- Chief actuary (Life, Non-Directive)
- Chief actuary (non-Life with Lloyd's)
- Chief actuary (non-Life without Lloyd's)
- Lloyd's Syndicates
- Reviewing Actuary
- Scheme Actuary
- With-Profits Actuary
- N/A

Your organisation

1. Organisation name

The Society of Pension Professionals

2. Type of organisation

- Actuarial consultancy
- Bank or building society
- Educational establishment
- Insurance company or reinsurer
- Investment firm
- Pensions provider
- Public body or regulator
- N/A
- **Other**

3. If other please specify

Representative body.

4. Are you responding on behalf of your organisation?

Yes

Privacy

1. Are you happy for your name to be published?

Yes

2. If you are responding on behalf of your organisation, are you happy for its name to be published?

Yes

3. Are you happy for your responses to be published? (If you have indicated that you do not wish your name, or the name of your organisation to be published, your responses would be published anonymously if you respond 'Yes' to this question).

Yes

Reasoning for the proposed scheme

1. To what extent do you agree or disagree that the proposed monitoring scheme is a reasonable step for the Institute and Faculty of Actuaries (IFoA) to take to meet its obligation to regulate the actuarial profession in the public interest? Please select one option

- Strongly agree
- Agree
- **Neither**
- Disagree
- Strongly disagree

2. Please explain the reasons for your response.

The proposals provide evidence that some steps are being taken towards regulation, which may be important in the current political climate. However, it is debatable whether these proposals will be effective in materially reducing the risk of a 'scandal' in which the profession's actions in the public interest are brought into question.

3. To what extent do you agree or disagree that these proposals would enable the IFoA to gather the information required to provide evidence as to the quality of actuarial work?

- Strongly agree
- Agree
- **Neither**
- Disagree
- Strongly disagree

4. Please explain the reasons for your response.

Again, the gathering of information would provide some evidence, but mostly in a relatively narrow context in areas where actuaries are specifically required.

The quality of actuarial advice is being linked purely to the compliance of written work and focused on PC holders, with no consideration of the ultimate outcome in terms of good decision-making by the user or the ability of an actuary to add value and provide quality advice in a wider context. The ability of an actuary to present and be challenged on their advice is also key to ensuring good outcomes.

5. To what extent do you agree or disagree that without evidence of the quality of actuarial work, there is a risk to the reputation of the profession?

- Strongly agree
- Agree
- Neither
- **Disagree**
- Strongly disagree

6. Please explain the reasons for your response.

The reputation of the profession is driven by the behaviour of its members and the outcomes of actuarial advice, not whether or not the IFoA has evidence of quality (something that those outside the profession are unlikely to be aware of). The obvious reputational risk to the profession is that poor quality actuarial work is highlighted in the public domain and it is unclear that this is materially reduced by the proposals or that being able to demonstrate some actuarial work is of high quality would mitigate the reputational damage.

7. If you agree there is a risk, how would you assess that risk?
- Very high
 - High
 - Low
 - Very low
 - **N/A**
8. How important do you think it is for the public to have confidence in the quality of the work of actuaries? Please select one option.
- Very important
 - **Important**
 - Neither
 - Unimportant
 - Very unimportant

9. Do you think that the introduction of these proposals would serve to strengthen this confidence?

No.

10. Please explain the reasons for your response.

It is clearly important that the public has confidence in, for example, the pensions and insurance industries. The quality of actuarial advice is a factor in this but we consider that the public will largely be unaware specifically of the work of actuaries. An outcomes-based approach to monitoring quality in the context of aiding decision-making may therefore be more relevant to public confidence than one focused on compliance.

We consider it is very unlikely that there would be any public visibility or awareness of the monitoring scheme (any more than there is currently public awareness of other measures to ensure quality, such as QAS, technical actuarial standards, peer review requirements, the practising certificate regime, CPD requirements etc.).

Rather, public confidence in the actuarial profession is more likely to be driven by the (perceived) outcomes of actuarial advice – for example from the way that pensions issues are reported in the press.

Proposed Approach

1. To what extent do you support a risk-based approach, focusing on the work of Practising Certificate (PC) holders?
- Strongly support
 - Support
 - **Neither**
 - Oppose
 - Strongly oppose
2. Please explain reasons for your response.

We are supportive of a risk-based approach but do not believe that a focus on the work of PC holders, which is already subject to enhanced controls, is consistent with this.

3. To what extent do you agree or disagree that a risk-based approach (as outlined in Section 1.3 of the Consultation Paper) resulting in three different categories of monitoring (direct review, thematic review and general information gathering) is appropriate?

- Strongly agree
- Agree
- **Neither**
- Disagree
- Strongly disagree

4. Please explain the reasons for your response.

We are not convinced that the proposed approach is focused on the areas of greatest risk, or that focusing largely on technical compliance is necessarily a good measure of the quality of actuarial work.

We consider there is a significant risk, with voluntary disclosure for Category B and Category C monitoring, that the profession will get a biased view of the quality of actuarial work in these areas (i.e. that examples of poor quality work are unlikely to be shared). However, we note the profession has no practical enforcement mechanism where a PC is not required.

5. Do you think that, in addition to focusing on PC holders in Category A of the proposed scheme, there is merit in including thematic reviews (Category B) and enhanced information gathering (Category C)?

- **Yes**
- No
- Don't know

6. Please explain the reasons for your response.

As noted above, we believe that the controls, which already exist in relation to the work of PC holders mean that the greatest risks lie in other areas of work which would otherwise not be covered by the scheme.

7. Do you think that the approach should take into consideration whether the PC holder's employer is Quality Assurance Scheme (QAS) accredited?

- **Yes**
- No
- Don't know

8. Please explain the reasons for your response.

QAS already covers compliance and the quality of advice prepared by actuaries employed by the accredited firm.

9. Are there any potential areas for monitoring that you feel have been overlooked in these proposals? Do you have any additional or alternative ideas about how a monitoring scheme could be delivered?

There is a number of areas, which are overlooked, although we recognise the IFoA may have (significant) practical difficulties in being able to impose reviews in some of these areas.

Regarding delivery, it may be appropriate to obtain feedback from the users of actuarial work and key stakeholders in the relevant industries. This would enable the monitoring to be more focused on outcomes. Examples of those from whom feedback might be sought are: Independent Trustees (who will see a range of work from different actuaries), The Pensions Regulator, and the Pension Protection Fund.

10. Do you think that the proposed scheme would enable the IFoA to obtain direct empirical evidence of the standard of actuarial work?

- **Yes**
- No
- Don't know

11. Please explain the reasons for your response.

However, as noted previously, the range of actuarial work being considered is very limited and there is no consideration in the proposed review process of the outcomes of actuarial work – for example how well it meets users' needs and whether it has facilitated good decision-making.

12. Do you think there would be merit in having non-actuaries as part of the Review Team?

- Yes
- No
- **Don't know**

13. Please explain the reasons for your response.

Non-actuaries with experience of the work being reviewed, for example as a user, may bring a different angle to the review process which makes it more rounded. However, they would have to be included in addition to and not instead of actuaries with sufficient experience of carrying out the work, and therefore cost is also a consideration.

14. If you wish to suggest any alternative approach to achieving the IFoA's objectives, please describe it here.

We have nothing to add to our other answers.

Outputs of the Proposed Monitoring Scheme

1. Do you think that the proposed outputs will provide sufficient information to ensure useful individual feedback?

- Yes
- No
- **Don't know**

2. Please explain the reasons for your response.

Further details of the review process are required in order to answer this question – for example what sorts of questions will be asked, and how will feedback be presented. We would expect this to be subject to further consultation to ensure that the process is as helpful as possible both to the profession and the individual.

3. Do you think that the proposed outputs will provide sufficient information to inform the regulatory work of the IFoA (standards, guidance and educational material, Continuing Professional Development requirements etc.)?

- Yes
- No
- **Don't know**

4. Please explain the reasons for your response.

We have no comments specifically in response to this question.

5. Are there additional or alternative outputs you would expect to see from the proposed monitoring scheme?

We have not identified any

6. To what extent do you agree or disagree that the proposed outputs (detailed in Section 3 of the Consultation Paper) would be useful to you in your work?

- Strongly agree
- Agree
- Neither
- Disagree
- Strongly disagree
- **N/A**

7. Do you think that reports arising out of Category A Review Visits should be shared with the individual PC holder's employer?

- **Yes**
- No
- Don't know

Confidentiality

1. Are you reassured that the proposal adequately addresses confidentiality and protection of sensitive information?

- Yes
- **No**
- Don't know

2. Please provide the reasons for your response and, if you answered "No", please explain what additional steps you would expect

In relation to consultancy work, the confidentiality provisions need primarily to address the potential concerns of actuaries' clients rather than of the actuaries or their employers. It would be helpful if generic materials were available, aimed specifically at explaining the Profession's objectives and approach to confidentiality for clients.

The redaction of sensitive client information is likely in many cases to result in insufficient context being available to the reviewer to assess the judgements made by the actuary in preparing their advice. With regards to corporate pensions work, in particular, it is common for NDAs to be in place which may preclude information being shared on a voluntary basis for thematic reviews.

Consideration also needs to be given to the potential for actuarial work to include member/policyholder data.

Current Regulatory Environment

1. Do you feel that in taking into account existing structures such as the Practising Certificates Scheme, monitoring activities of statutory regulators and QAS, the proposed monitoring scheme would be appropriately integrated within the existing IFoA regulatory framework?

- Yes
- **No**
- Don't know

2. Please explain the reasons for your response.

If more information about the quality of actuarial advice is needed in relation to work produced by QAS firms, this should be fully integrated into the QAS accreditation process rather than having this scheme sit alongside. For example, work sampling (for a range of actuarial work – not just that of PC holders) could form part of the assessment. Introducing separate monitoring duplicates monitoring work that is already carried out within QAS accredited firms (checking compliance for reserved work through established processes and undertaking cold file reviews), and could undermine the credibility of QAS.

Alongside the suggestion above, consideration should be given to making QAS mandatory in some cases – for example for employers of a minimum number of actuaries / PC holders.

We note that it is proposed that Review Visits should coincide with QAS visits (i.e. that there will only be one visit) – but this appears to assume that an employer has only one office location. Where an employer has more than one office it is unlikely to be more convenient for PC holders to have to travel for the Review Visit.

Direct monitoring could be more closely integrated with the PC scheme – for example by identifying work for review from a member's PC application.

3. One of the IFoA's aims is to introduce a scheme designed for the profession by the profession, in the spirit of maintaining the benefits and privilege of effective and accountable self-regulation, subject to independent oversight. Do you think that this aim has been achieved in these proposals?

- Yes
- No
- **Don't know**

4. Please explain the reasons for your answer (including anything you would add that would help us to achieve this aim).

This will depend on the extent to which consultation feedback from members of the profession and their employers is taken into account in deciding how to take these proposals forward.

Impact

1. Do you think that the impact of the proposals is reasonable in light of the reasons for their proposed introduction?

- Yes
- **No**
- Don't know

2. Please explain the reasons for your response.

The proposed scheme disproportionately impacts on PC holders, whose status and work is already subject to increased scrutiny and controls. We consider that the risk of poor quality actuarial work is greater in other areas, including where work is not reserved to actuaries and competitive pressures may result in corners being cut.

3. Are there other impacts that have not been considered in the consultation paper? If so, please explain what those are.

The proposals will be very costly to businesses employing PC holders as they will tie up actuaries for reasonable periods of time. This includes time spent preparing for review visits as well as time for the visits themselves, reviewing and commenting on feedback reports.

Further Comments

1. Do you have any further comments?

Sharing individual feedback with an actuary's employer is essential to ensuring that it is integrated into their development activity and results in improvement to the quality of their work. We are particularly uncomfortable with the idea that the IFoA could identify meaningful shortfalls in an individual's advice and not raise this with the employer to highlight the potential risk. If there are concerns regarding subjectivity of the reviewer's comments then perhaps a two part output could be used where the initial high level assessment is shared with the employer and more subjective suggestions around best-practice improvements are addressed solely to the individual.

Does the IFoA anticipate that participation in the direct review process would count as CPD for PC holders given its direct focus on improving the quality of the individual's work?

The costs of the monitoring scheme – to the extent that it is funded by the IFoA – should not be borne equally by all actuaries through their subscriptions. In particular, consideration should be given to reflecting the different levels of monitoring in the cost of a PC depending on which sub-category they sit in.

We believe the IFoA has underestimated the cost and difficulty of recruiting sufficient staff with relevant experience and expertise to carry out the assessment work. The indication is that these would need to be recently retired scheme actuaries, who could be retained for only a limited period before their skills and knowledge become out of date. We think it will be difficult to recruit people who will have the necessary skills and experience to quickly judge the quality of material presented, identify potential holes and productively question and challenge the (often) experienced actuaries being interviewed. Potential conflicts and the need to protect intellectual property would appear to rule out the involvement of actuaries currently still working in the industry.