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THE MORRIS REVIEW OF THE UK ACTUARIAL PROFESSION

An explanation of what the Morris Review found and what it means to you.

By Chris Daykin

Chris Daykin
Independent Consultant and Actuary
London, United Kingdom
chris@daykinactuary.co.uk

** The opinions presented in this article are those of the author solely and should not be interpreted as the opinions of the author's employer or the Society of Actuaries.*

In December 2000, Equitable Life, the oldest mutual life insurance company in the world closed to new business. Equitable, established in 1762, was the first insurance company to call its mathematician an "actuary." It is ironic that its eventual closure should have triggered the first ever government-established review of the actuarial profession. Equitable closed because of a judgment by the House of Lords, the United Kingdom's Supreme Court, in July 2000, which ruled as illegal the company's practice of awarding different terminal bonuses according to whether or not contracts had a guaranteed annuity option.

THE MIGHTY PEN

A public inquiry was set up under Lord Penrose into the events that had led to the closure of Equitable. The 817-page March 2004 report of this inquiry was critical of the company management, but also levelled criticism at the actuarial profession and at the regulatory structures. Penrose suggested that both the regulatory system and the profession had placed too much reliance on the role of the appointed actuary. He also accused the profession of lacking comprehensive and specific professional standards, of having reactive disciplinary arrangements, of giving insufficient technical guidance on good practice in specific areas and of not being willing to challenge fellow professionals.

In receiving this report, the government accepted that there had been some shortcomings in the regulatory system, for which previous governments were responsible, although they argued that these shortcomings had now been largely dealt with by the new supervisory structure that had been put in place under the Financial Services Authority. However, they announced the setting up a review of the actuarial profession, under Sir Derek Morris, an academic economist who was completing his term as chairman of the Competition Commission. There were three main aspects to the Review:

- The extent of competition and choice in the market for actuarial services.
- The regulatory framework for members of the actuarial profession.
- The future role of the Government Actuary's Department (GAD).

GETTING STARTED

A small team supported Sir Derek in carrying out the Review. There was also an external advisory panel, including one Canadian actuary and two United Kingdom actuaries, one being from a major consulting firm. The Review issued a consultation document in June 2004, requesting responses by September, and carried out interviews with those familiar with the actuarial profession or with GAD. The Review published an Interim Assessment Report in December and a Final Report in March 2005.

The Review concluded that they had "no reason to doubt that the overwhelming majority of actuaries in the United Kingdom are anything other than dedicated, skilled professionals, providing important and useful advice with commitment, integrity and a strong sense of professional duty." However, the Review identified a number of weaknesses in the current framework of self-regulation by the profession, including:

- Professional standards that have been weak, ambiguous or too limited in range, and perceived as influenced by commercial interests.
- An absence of proactive monitoring of members' compliance with professional standards.
- A profession that has been too introspective, not forward-looking enough and slow to modernize.

FURTHER CONCERNS

On the question of competition, the Review concluded that sufficient competition and choice is in general available in the market for actuarial services, but that there is an "understanding gap" between users and actuarial advisers, which inhibits the exercise of choice. The Review suggests the need for more formal review and market testing of actuarial services and for measures to reduce some obstacles to a more effective market emerging.

In particular, the Review recommends that trustees of pension plans should invite tenders separately for 1) actuarial advice, 2) strategic investment advice, and 3) fund manager selection advice. It also recommends that pension plan trustees should:

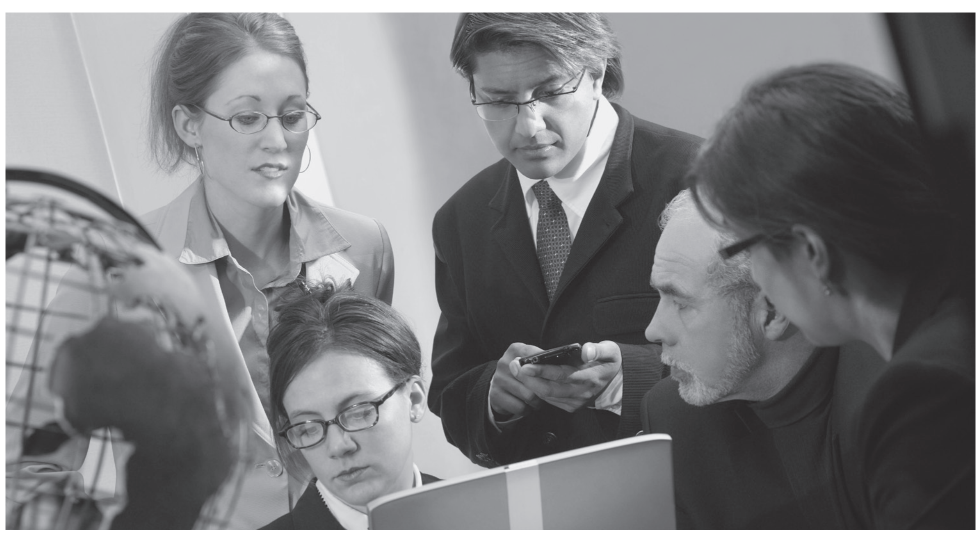
- Informally evaluate their actuarial advisers on an annual basis.
- Undertake a more formal evaluation every three years.
- Undertake a formal market-test of their actuarial advisers every six years.

The Review was concerned that users of actuarial advice are not well-placed to challenge and question the advice they get and recommended that the Pensions Regulator should develop information and case study material to help pension plan trustees to challenge their actuarial advice and to be able to recognize conflicts of interest. There should also be education and training for non-executive directors of insurance companies to assist them in challenging advice from their actuaries.

On the regulation of the profession, the Review recommended that there should be independent oversight of the profession by the Financial Reporting Council (FRC), which already oversees the accountancy profession. The FRC should establish an Actuarial Standards Board, and expand the remit of the Professional Oversight Board for Accountancy (POBA) to include actuaries, with responsibility for oversight of education, the disciplinary process and compliance with standards.

The Review was not convinced that the current education arrangements for becoming an actuary were optimal, reflecting, it would seem, a rather partial understanding of the education strategies and processes. However, they regarded the current "work-based" model of part-time study and exams run by the profession as a constraint on the profession expanding into wider fields of practice, reinforcing the existing pattern of actuaries being largely employed in insurance and pensions, a strategy, which could prove dangerous to the profession if these areas of work decline in importance or in their need for actuaries.

Notwithstanding some criticism of past efforts to modernize the syllabus, the Review was impressed with the latest education strategy, which has just come into force with the April 2005 examinations, and encouraged the profession to implement that fully. The profession's education processes will in the future come under the oversight of the expanded POBA, but the profession should ensure that it obtains broader input into future revisions of the syllabus and core reading. This seems to reflect a (largely incorrect) perception by the Morris team that the profession had not received broad academic and other input into previous syllabus revisions and that there had been excessive influence from commercial interests.



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More radically, the Review recommends that the profession should consider moving a more university-based education system, with the actuarial education up to associateship level provided entirely by the universities, and the profession concentrating on fellowship level examinations and work experience requirements. Morris also envisaged the profession giving much greater freedom to the universities than at present to teach and assess the basic actuarial education in whatever way they wanted, contrasting with the close monitoring and accrediting of particular courses, which characterizes the present model of university exemptions.

The Review was not impressed by the current Continuous Professional Development (CPD) Scheme and recommended that the objectives of the scheme be clarified and that CPD should be kept relevant and to-date, taking fully into account developments in actuarial science, financial markets and other related disciplines. The Review liked the U. K. profession's current proposals for revalidation and maintenance of professional competence, which will in effect make CPD mandatory for all working actuaries, since anyone who is an actuary and in work (whether or not in an actuarial capacity) will be required to have a renewable practicing certificate and to maintain a certain level of CPD, including a mandatory level of professionalism training.

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RECOMMENDATIONS

Sir Derek Morris studied the reserved roles that actuaries have in the United Kingdom in life insurance and pensions and largely supported their continuation, although ominously the Review recommended that, in the medium term, the government and the regulators should keep the roles that they reserve to actuaries under review, with a view to opening up the roles to other suitably qualified professionals. They did not provide any indication of who they thought these other suitably qualified professionals might be! The Review did, however, recommend that the regulators should consult on introducing a requirement for property/casualty insurers to take appropriate advice from an "approved person" with relevant skills in risk assessment and the valuation of liabilities, who may or may not be an actuary.

The Review recommended the establishment of an Actuarial Standards Board (ASB). This was already under consideration by the profession at the time the Review was set up. In the context of the Review's recommendations, such an ASB would be part of the structure of oversight to be established by the FRC. The profession would continue to have responsibility for the professional code of conduct (the Professional Conduct Standards (PCS)), unless the expanded POBA at any time had concerns about the quality of the PCS.

Consideration was given by the Review to the question of the public interest and the accountability of actuaries. In general, the Review concluded that the public interest will best be served through actuaries' compliance with high-quality professional standards. They saw this being enhanced by the future role of the ASB in setting standards, by more rigorous requirements for independent review and scrutiny of actuarial work and by expanded requirements for actuaries to "blow the whistle" to statutory regulators, to the FRC and to the profession.

The Review considered that there was a clear need for formal, systematic and independent scrutiny of the work of actuaries performing reserved roles in life insurance and pensions, given the:

- Complex nature of actuarial advice.
- General lack of challenge provided by users of actuarial advice.
- Importance of the work undertaken by actuaries in reserved roles.

In general, this may not mean much additional scrutiny in life insurance relative to what is already envisaged under the Financial Services Authority's new three-actuary system that has recently replaced the Appointed Actuary system, since one of the three actuaries is the

Reviewing Actuary, who advises the auditors on auditing the actuarial aspects of the company's accounts. However, it is recommended that the profession should identify any gaps in the current structure; that insurers themselves should consider whether further peer review would be appropriate of actuarial advice provided to the Board; and that the FRC satisfy itself that appropriate monitoring is occurring, either through direct supervision by the regulator, by audit or by external peer review.

Following this logic through into pensions, Sir Derek supported the introduction of peer review of Scheme Actuaries' advice, as currently proposed by the profession, but recommended that the Pensions Regulator should ensure that Scheme Actuaries' advice is subject to formal scrutiny by independent experts, either through risk-based supervision, or through audit or external peer review, possibly differentiating between large pension plans and smaller pension plans in the way in which this is implemented.

Finally, the Review concludes that the changes already made by the profession to modernize its disciplinary scheme are entirely suitable. The only recommendations made here are to bring the future oversight of the disciplinary scheme under the expanded POBA, to bring about closer links between the regulators and the disciplinary scheme and to give the Accountancy Investigation and Discipline Board (another entity under the FRC) an expanded remit to investigate and to hear "public interest disciplinary cases" involving actuaries.

The Review endorsed the continuing need for a professionally independent government Actuary's Department, but recommended more competition, through the removal of any constraints on public bodies and pension plans being able to seek actuarial advice from any source. They suggested that GAD's demographic work should be carried out by the Office for National Statistics in the future.

CONCLUSION

Somewhat melodramatically, the Review concludes that the United Kingdom actuarial profession is at a crossroads and inevitably faces change. They perceived a danger that this could lead to retrenchment. However, Sir Derek Morris writes, in the introduction to the Final Report that, "with strong leadership ... I believe that the profession can move forward, on the basis of the reforms proposed in this review, to fulfil a wider remit in the field of financial risk analysis, bringing expertise, robust technical standards and the benefits of professional conduct standards to both traditional and new sectors." We hope so.

UPDATE IN 2012

It is now seven years since the Morris Review reported, so with the suggestion of a reprint of this article, I offered to write a short update on what has happened since. The profession was not required to do all that Morris proposed, but the government announced that it supported the key recommendations of the review, so certain recommendations acquired a momentum of their own, in particular the recommendations for an independent standard-setting body and external oversight of the profession. The Board for Actuarial Standards (BAS) was established as part of the Financial Reporting Council, the body, which also hosts the Accounting Standards Board and the Auditing Practice Standards Board. BAS has a full-time staff and Board Members include representatives of users of actuarial services, as well as a number of actuaries, both from practice and from academia.

BAS has been in operation since April 2007 and has repealed nearly all the previous Guidance Notes, which were a mixture of mandatory standards and recommended practice, replacing these with seven principles-based Technical Actuarial Standards (TAS), which are mandatory for all actuaries working within their scope, which is limited to work in the United Kingdom *(www.frc.org.uk/bas/).*

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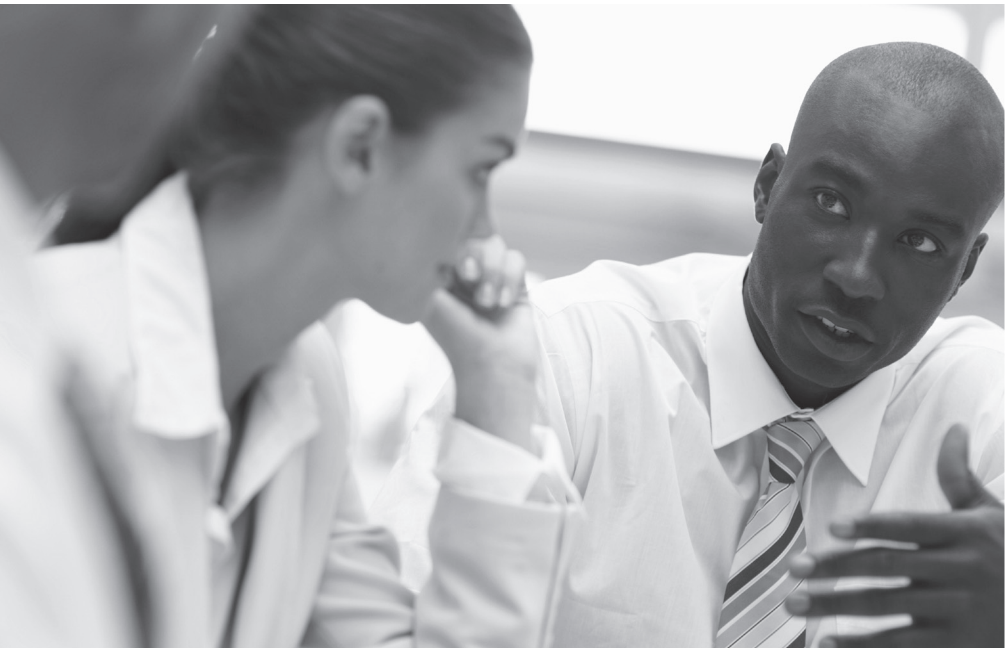

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The Morris recommendations also led to the establishment of the Professional Oversight Board (POB), which is charged with overseeing many aspects of the profession to see that it remains "fit for purpose" and serves the public interest. This includes education and qualification, continuing professional development, accreditation of universities, mutual recognition with other actuarial associations, the code of conduct, actuarial professional standards and the discipline scheme. Every decision proposed by the profession in these areas is subject to review and comment by the POB, although there is no obligation on the profession to accept the recommendations of the POB.

The introduction of these oversight arrangements was not particularly positive for morale within the leadership of the profession and relationships with POB have taken some time to settle down. The concept of an independent standard-setter was generally welcomed, although that also creates some tensions, which will become more significant if the International Actuarial Association and the Groupe Consultatif (the umbrella organisation for actuarial associations in Europe) start to issue model standards, since the U.K. profession will only be able to pass these on to BAS and not to act on them.

Shortly after the POB was put in place, the leadership of the profession began working on a major update and revision of the Code of Conduct to make it more principles-based and more user-friendly. The wording of the new code had to be negotiated with POB. On the other hand, the recommendation of the Morris Review for the profession to abandon examining the technical examination subjects, and rely entirely on universities, was not accepted by the profession and has not been pursued by POB.

The profession became increasingly introspective as it embarked on serious discussions to merge the Institute of Actuaries and the Faculty of Actuaries. Although the two U.K. professional bodies had been working together very closely for 20 years, the mechanics (and politics) of merger proved demanding and diverted the leadership from other priorities. The negotiations were finally successful and a new merged body—the Institute and Faculty of Actuaries—came into being on Aug. 1, 2010.

Since then there have been major changes in the organisation of the paid staff of the joint body and extensive discussion on a new strategic plan. Now we can look forward to a more outward-looking and self-assured profession. A clearer recognition by the Council that 40 percent of the total membership—and more than 50 percent of the student membership—are outside the United Kingdom has led to the adoption of a proactive international strategy and a new focus on providing services to the whole membership.

The profession has eagerly embraced the new international actuarial designation for risk management—the CERA, or Chartered Enterprise Risk Actuary—and has put in place a strong route to attain this qualification, which is now being used by several other associations in order to grant the CERA. Work is continuing with a view to demonstrating and developing the value of actuarial involvement in many fields outside the traditional practice areas.

If the profession is no longer a standard-setter—and is subject to oversight in respect of many of its public interest activities—what should now be the drivers? Providing a top quality route to qualification as an actuary, ensuring that the work of actuaries is delivered to the highest standards, supporting the members in every way and speaking out in the public interest on issues where actuaries have something significant to say, will form some of the major ingredients.

And finally, what about the Government Actuary's Department, which was also the subject of a number of recommendations from Morris? The main ones to have been implemented were to move the demographic work on population projections to the Office for National Statistics and some modeling work into the relevant government department. However, the basic concept of an independent actuarial department within government, providing advice to the public sector, was supported by Morris, subject to increased exposure to competition with the private sector. The GAD has gone from strength to strength, now under new leadership, as I retired from the post of Government Actuary at the end of 2007.