



A general welcome has been given to the careful 'Morris' approach to reform of the Actuarial Profession and the market for actuarial services...

ACA SAYS MORRIS PROPOSALS SHOULD STRENGTHEN PROFESSION AND COMPETITIVE MARKET FOR ACTUARIAL SERVICES

16 March 2005: The Association of Consulting Actuaries (ACA), the body representing over 1500 actuaries based at 80 firms of consulting actuaries, has broadly welcomed the careful approach taken by Sir Derek Morris in his final report (published today) on the Actuarial Profession.

The report has accepted that the market for actuarial services is competitive, with evidence of significant entry by small and medium sized independent firms into the market. The report has, however, made a raft of recommendations designed to ensure the Profession and actuarial standards are responsive to changes in the financial scene and users' needs, with independent oversight of the Profession by way of the Financial Reporting Council.

"ACA members will support the practical and well thought through measures contained within the Report. On reflection, we may have to think carefully how a few of the proposals could work, particularly if we feel they will have a serious and adverse impact on users or the market for actuarial services. That said, we are encouraged that, in many areas, Morris has generally opted for recommendations or further careful thought across the Profession before changes are introduced, rather than hasty prescriptive reforms," commented ACA Chairman, Adrian Waddingham.

"It was important that these final recommendations did not have the effect of reducing competition or adding to costs and complexity for users, rendering both products and services increasingly beyond the pocket or interest of all but the most sophisticated users. In the main, we feel this objective has been met, although the external independent review of Scheme Actuary's advice (as opposed to internal peer review) may well prove difficult to apply," said Adrian Waddingham.

The ACA welcomed the proposals that actuarial firms should consider in more detail the use of proportionate liability clauses in contracts and that the Profession, ACA and ABI ensure greater guidance on risk mitigation is available to those underwriting Professional Indemnity Insurance and those seeking to buy it.

The ACA welcomed the acknowledgement by the review that the incidence of full-service appointments reflected demand from users of actuarial services - particularly medium-sized and small firms - who could be disadvantaged by any requirements that services offered by consulting actuaries should be unbundled.

The ACA has argued that some services provided by actuaries to pension schemes such as advice on funding and advice on investment strategy are best interlocked and performed by those with actuarial skills. The ACA has expressed a concern that the final report still seems not to appreciate the expertise of actuaries in giving advice on investment strategy and asset allocation to pension schemes.

In their submission to the Morris interim assessment, the ACA argued that the Scheme Actuary should be able to advise both the scheme sponsor and trustees, unless the actuary or trustees deem there to be a conflict, in which case the Scheme Actuary should only advise the trustees. This approach supports the cooperative ethos evident within most sponsoring companies and helps to reduce the cost of running pension schemes. Where conflicts arise they are dealt with by common sense solutions at scheme level. It is encouraging that Morris has supported this approach in his final report.

The ACA has argued for the inclusion of more independent trustees on trustee boards, who have a wide experience of other schemes and can significantly enhance the operation of the trustee body. In order to facilitate this, the ACA has proposed that the Government changes the member nominated trustee requirements so that scheme sponsors are permitted to include external trustees in place of up to half of the required member nominated trustee positions. This change could be implemented in conjunction with the proposed change to 50% member nominated trustees.

While this is at odds with the Government's drive for greater member participation in trustee groups, the ACA believes that the additional benefits of having external trustees will outweigh the benefits of wider member representation. This latter objective is, in any event, addressed by the need for greater employee consultation over pension changes.

The ACA is supportive of an independent oversight body for the actuarial profession, particularly in respect of standard setting. The ACA notes that the report recommends that this is the Financial Reporting Council (FRC). However, many issues need to be considered before a final decision is taken, not least cost.

For the full ACA response to the *Morris Review: Interim Assessment* paper go to www.aca.org.uk ('Policy Statements' button)

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Note to Editors:

The **Association of Consulting Actuaries (ACA)** has over 1500 members working in around 80 firms. Members are advisers to UK pension schemes with assets in excess of £650 billion, including the vast majority of larger schemes and thousands of smaller arrangements. The ACA forms the largest national grouping of consulting actuaries in Europe.

Following the publication of the Penrose Report into Equitable Life, the Government appointed Sir Derek Morris to undertake a review of the Actuarial Profession. His Interim Assessment was published in December 2004 and, following a further stage of consultations, his final report was published today.