P-Solve

Comments on JFAR: A Discussion on Risk

Introduction and Background

P-Solve is part of the River & Mercantile Group plc, which was formed by the merger of P-Solve with River & Mercantile Asset Management in 2014. The Punter Southall Group remains a strategic investor in River & Mercantile Group plc.

We offer a wide range of consulting and investment advice services to a broad range of institutional clients, including pension schemes and insurance companies covering a substantial amount of assets. We manage fiduciary mandates to the value of around £7bn.

We manage derivative portfolios for our clients aimed at risk management. These comprise both interest rate and inflation swap portfolios and equity derivatives. In total we manage around £9.6bn of derivatives by exposure.

Our competitors would be drawn from investment consultancies and investment managers and increasingly investment banks will undertake some of the same pension scheme risk modelling work that we do (e.g. liability management of defined benefit pension schemes).

We are regulated by the Financial Conduct Authority (FCA) and we employ a range of professionals, any of which may be involved in providing advice. Our modelling and risk advice may be undertaken by actuaries or non-actuaries.

Our view

We are very supportive of a joint approach to regulation and risk management in the areas discussed within the JFAR Discussion Document.

However, it should also be the case that whilst risks can be mitigated in financial systems through certain actuarial skills, a regulatory regime which differentiates between work produced by an actuary and by a bank analyst has unintended consequences. In particular, for employers of actuaries (and the actuaries themselves) it can be a challenge to respond to regulation from a number of different areas (e.g. from the FCA, through the Financial Reporting Council and from the Institute and Faculty of Actuaries through its professional regulatory role). Encouraging firms to employ non-actuaries to undertake modelling work (i.e. the non-actuaries are not required to apply Technical Actuarial Standards to their work) which is used to make key decisions in relation to investment strategies cannot be beneficial to the end-users or to the mitigation of risk.

It is our view that where certain modelling/risk analysis/funding projections and asset/liability modelling is undertaken and presented to the key stakeholders of systemically important institutional investors (for example the trustees of defined benefit pension schemes), the quality of work should be governed in a consistent manner across the different types of provider.

To this end, we would (for example) propose that the principals of the Technical Actuarial Standards currently being consulted on by the FRC ought to apply not only to actuaries, but to anyone who provides such analysis to such investors. In the case of defined benefit schemes, we believe that this could be achieved by such advice being regulated by (either or both of) the FCA and the Pensions Regulator.

P-Solve
February 2015

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