THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

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Our Ref: JM/JB/4.1

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Dear Ms Regan,

JOINT FORUM ON ACTUARIAL REGULATION: A RISK PERSPECTIVE – DISCUSSION PAPER

We welcome the opportunity to comment on the above discussion paper.

INTRODUCTION TO THE SOCIETY OF PENSION PROFESSIONALS

SPP is the representative body for a wide range of providers of advice and services to work-based pension schemes and to their sponsors. SPP's Members' profile is a key strength and includes accounting firms, solicitors, insurance companies, investment houses, investment performance measurers, consultants and actuaries, independent trustees and external pension administrators. SPP is the only body to focus on the whole range of pension related services across the private pensions sector, and through such a wide spread of providers of advice and services. We do not represent any particular type of provision or any one interest - body or group.

Many thousands of individuals and pension funds use the services of one or more of SPP's Members, including the overwhelming majority of the 500 largest UK pension funds. SPP's growing membership collectively employs some 15,000 people providing pension-related advice and services.

The discussion paper has been considered by SPC's Actuarial Committee, which comprises representatives of actuaries and consultants.

The Society of Pension Professionals was previously known as the Society of Pension Consultants (SPC).

COMMENTS ON THE DISCUSSION PAPER

1) We welcome this discussion paper, including the aim, which it embodies, of avoiding regulatory duplication.

2) We also welcome the recognition that actuarial work can be performed by individuals other than actuaries and the scope of the discussion paper, to cover both qualified actuaries and others who may be performing actuarial work.

   We consider it important that any analysis of risk recognises that, whereas actuaries performing actuarial work are subject to the mandatory professional and technical standards of respectively the Institute and Faculty of Actuaries and the Financial Reporting Council, non actuaries performing the same work are not subject to the same disciplines. This in itself can give rise to the risk that the quality of professional and regulatory scrutiny of actuarial work can differ, depending on by whom it is delivered.

   We raised a similar concern in the response to the FRC consultation on a new framework for Technical Standards.

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3) While we can understand that the discussion paper does not include regulation in general and actuarial regulation in particular as risks, we are sure that JFAR will not wish to overlook the potential for risks arising from inconsistent regulation and the potential for regulation and regulators to contribute to “group think”. Even where regulation does not mandate a particular course of action or approach, a regulator might express a clear view on how a particular matter should be addressed and there is then usually considerable, and understandable, reluctance among the regulated constituency to proceed in a different way.

4) We now set out some comments relating more specifically to particular parts of the discussion paper.

   Modelling: The discussion paper, rightly, underlines the importance of conveying to the user of actuarial work the limitations of a model and the sensitivity of its outcomes. However, we suggest that it would be helpful to specifically recognise the risk potential, in end users, contrary to intentions, drawing their own conclusions from models prepared by an actuary, quite possibly on the basis of imperfect understanding, and then taking action on the basis of their imperfectly formed conclusions.

   Group Think: The discussion paper states that consensus may also develop or be accelerated by perceived regulatory pressure and we have referred above to the encouragement that this can give to Group Think.

   The discussion paper also refers to the imposition by senior management and/or clients of views, which actuaries might not feel in a position to challenge effectively. We suggest that situations such as these are bound to arise as parts of the normal business process and we see no objection to consensus in itself. What is important is that any consensus is viewed as changeable when appropriate.

   Group Think in Investments: We suggest that a risk worth highlighting is the potential for an investment strategy, which might be perfectly reasonable in the context of an individual pension scheme, when combined with the same strategy in others, to create macro-economic risks. We have in mind in particular the potential to disrupt markets of very large aggregate purchases of gilts by schemes, as part of de-risking exercises.

   Understanding of Risk and Return: The discussion paper refers to the need of consumers for a good understanding of risk and return. We welcome this recognition and suggest that effectively communicating risk and return is the biggest of the challenges identified in this part of the discussion paper.

   Transfers out of DB Schemes: Whilst we accept the potential for detriment arising from transfers out of defined benefit schemes, we consider that the greater risk is poor advice to members, rather than poor quality of the actuarial information, upon which the advice is founded.

   Investment Assumptions for Closed Schemes: We suggest that the key risk is inappropriate choice of investments in a low yield environment.

   Limits to Growth: We do not question that lack of natural resources and/or demographic change are factors, which can have a profound impact on long term growth and actuaries certainly need to take account of them when relevant. However, we are not sure whether the discussion paper assumes that actuaries have particular expertise on these economic and demographic matters, by virtue of being actuaries. In our view, this is not the case.

Yours sincerely

John Mortimer
Secretary