

Morris Review of the Actuarial Profession

Consultation Document

A response by

UK Society of Investment Professionals

About UKSIP

The UK Society of Investment Professionals (“UKSIP”) is a professional organisation whose main aim is to foster and maintain high standards of professional ability and practice in investment analysis, portfolio management and related disciplines. It currently has over 4,500 members, who work or have an interest in the UK financial services industry. UKSIP is the second largest member society worldwide of the CFA Institute, and the largest in Europe. CFA Institute is a global non-profit organisation of more than 67,000 investment professionals, and is best known as the organisation that develops and administers the Chartered Financial Analyst (CFA[®]) Program.

UKSIP also oversees the Investment Management Certificate (“IMC”), the benchmark qualification for those working in investment management in the UK and currently held by over 15,000 investment professionals. UKSIP members who successfully completed UKSIP’s former Associate examination, which was similar to the CFA, can use the designation ASIP.

About this Response

We will focus particularly on the areas in which the Actuarial Profession works, interacts or overlaps with UKSIP. Approximately 300 UK practising Actuaries work in investment, although a minority of these are also qualified as Fellows or Associates of UKSIP or as CFA Charterholders. Actuaries within investment firms would typically have completed their Actuarial qualification first and then specialised in investment. There is a trend for life office investment departments to involve non-Actuarial professionals, and indeed for investment managers and analysts to enter that work via this profession rather than first qualifying as an Actuary.

We welcome the changes the Actuarial Profession has already announced this year, a number of which bring it more closely into alignment with the practice of UKSIP. We believe that continuing professional development is essential to maintain competence throughout professionals' careers. Additionally, our members who are CFA Charterholders or Regular Members of CFA Institute are required to re-affirm and sign annually a professional conduct statement.

We believe that a good professional framework around recognised high standards is an important contribution to make to achieve good professional conduct, and the emphasis of the Morris Review should be on that primarily, rather than changes to the regulatory framework.

Increasingly risk management is an important function associated with investment management. The demands of this will be on asset liability modelling and to areas such as compliance with FSA rules, client contract compliance, alternative investment risks and firm-wide operational and capital adequacy risks. Some of our members take on additional training for this role, but Actuaries may also require additional training and competence to perform it. Also, many of the 1800 Actuaries who work in pensions are involved as consultants to pension schemes, will require to maintain their investment knowledge. We believe that the Actuarial Profession needs to maintain professional training to achieve continuing competence for these professionals and needs to ensure that the educational syllabus is regularly reviewed to incorporate developments in this area.

We also believe that peer review is important and our members who are also Regular Members of the CFA Institute are provided with substantial continuing research and a basis on which continuing training can be certified. The CFA education syllabus is revised annually in a substantial international consultation exercise involving market participants, clients and other users. We believe that the Actuarial Profession should institute in the investment field a more structured permanent rolling review of their education syllabus, with mechanisms for consultation and revision. This should also review international developments. These would include changes to investment practice and behaviour in other centres, and the impact of regulatory change outside the UK.

Response to questions

Q1.2 *Are there areas of business that you think actuaries should become more involved in or conversely are there areas of work you think actuaries should leave to other professionals?*

We believe that Actuaries should become more involved in emerging areas of risk management within investment businesses and investment divisions of financial institutions, but should incorporate the necessary training and examination for this in their educational syllabus, and their programme of continuing professional development.

Q1.4 *What impact, if any, has the existence of reserved roles had on the effectiveness with which actuaries work with non-actuaries?*

We do not believe that the existence of reserved roles has an adverse impact on the effectiveness with which members of our profession work with Actuaries.

Q1.14 *Are there any aspects of the Profession's governance structure that you would like to draw to the attention of the review? Do the Profession's various decision-making bodies represent a diverse range of interests? Should there be greater lay input into the Profession's key decision-making*

bodies?

We believe that governance of the Actuarial Profession at the top level has tended to emphasize the areas in which the majority of Actuaries work, such as life assurance. We believe that representation of investment professionals in the governance of the Profession should be maintained if the Profession is to maintain a relevant syllabus and ethical standards in investment.

Q1.30 *How are the skills and professionalism of UK actuaries and the UK actuarial profession regarded internationally?*

We believe that the skills and professionalism of UK Actuaries and the UK Actuarial Profession are highly regarded internationally. Within some multi-disciplinary organisations, Actuaries can be viewed by some as more specialist technical experts, requiring additional management and other training if their career path is to broaden from that technical expertise.

Q1.32 *Do you agree that there are lessons to be drawn from a consideration of the work of actuaries in Canada, Australia and the US? If so, on which aspects of the work of actuaries in these countries do you think the review should focus?*

As our profession has changed to become part of a global organisation, we do believe it is important for professionals in the UK to maintain strong links with Actuarial bodies internationally and monitor international developments that might import best practice.

Q1.34 *Do you agree that the review can learn lessons from recent developments in the UK accountancy profession, for example, in areas such as standard-setting or in the establishment of a single unified and independent regulator – the Financial Reporting Council?*

We do not believe that a single unified independent regulator would be more effective than the changes proposed by the Actuarial Profession; such as peer review and identification of agreed standards. In investment, it is difficult to see how such a regulator could set UK standards independently of international developments. There is more harmonisation of practice and legislative framework globally for investment than in areas such as life assurance. A proposed single regulator might only be able to address areas of Actuarial work outwith investments, that are more dependent on UK regulations, tax and client requirements.

Q1.35 *Are there any forthcoming EU directives or international accounting standards that are likely to impact on the actuarial role?*

In company accounting and reporting of pension scheme liabilities and risks, previous inconsistencies at times between Actuarial advice in assumptions, such as long term real return expectations, have been an issue for investment professionals using this information. Changes in accounting standards and greater disclosure have now largely addressed this issue.

Q2.2 *What is your overall view of the strengths and weaknesses of the current self-regulatory approach as applied to actuaries by the professional bodies. Does it adequately protect the interests of consumers? If not, are there key aspects of the regulatory framework that you think should be changed? Is*

there too much emphasis on reserved roles for individual actuaries?

We believe that the Actuaries' self-regulatory approach is capable of being successful in terms of discipline, and is transparent. Representation in the process of setting professional standards should involve consumers and other stakeholders. Many professions appear to be moving in this direction.

Q2.3 *Does the Profession's dual responsibility for representing its members to the outside world and regulating them in the public interest create a conflict of interest? Is this conflict acceptable?*

We do not believe that the Profession's dual responsibility creates an unacceptable conflict of interest. Representation of the public interest in setting standards and implementing regulation would help to address potential problems raised by the conflict.

Q2.23 *Are there any other changes to the CPD programme that you would like to see?*

Q2.37 *Is there a need to further widen the scope of actuarial activities that are subject to peer review or other forms of scrutiny – for example into Lloyd's syndicates and general insurance?*

UKSIP and the Actuarial Profession maintain regular contact to assist in the co-ordination of seminars, research and training that are useful to members of both professions. This does not inhibit the competition between Actuaries and other professionals. We believe that in connection with peer review of Actuarial Standards in investment, members of UKSIP can play a role and enhance that process.

September 2004