



**ASSOCIATION ACTUARIELLE INTERNATIONALE  
INTERNATIONAL ACTUARIAL ASSOCIATION**

February 4, 2005

The Morris Review  
Room GC/08  
1 Horse Guards Road  
London SW1A 2HQ  
United Kingdom  
(Email: [morris.review@hm-treasury.x.gsi.gov.uk](mailto:morris.review@hm-treasury.x.gsi.gov.uk))

Dear Sir,

**Re: Morris Review of the Actuarial Profession - Interim Assessment**

In response to the request for comments on the Morris Review of the Actuarial Profession – Interim Assessment, I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

These comments have been prepared by the Professionalism Committee of the IAA. If, upon reading these comments, you identify any points that you would wish to pursue, please do not hesitate to contact the chairperson of the committee, Helen Martin, or any of the other members of the committee. The IAA will be pleased to develop these ideas further with you.

Yours sincerely,

Yves Guérard  
Secretary General

cc: Helen Martin ([helen.martin@apra.gov.au](mailto:helen.martin@apra.gov.au))

Attachment

**A Commentary on the  
MORRIS REVIEW OF THE ACTUARIAL PROFESSION - INTERIM ASSESSMENT  
Released by HM Treasury, United Kingdom: December 2004**

**International Actuarial Association**

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our fifty Full Member actuarial associations represent more than 95% of all actuaries practicing around the world. The Full Member associations of the IAA are listed in an Appendix to this statement. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within or likely to have an impact on the areas of expertise of actuaries.

**Due Process**

These comments have been prepared by the Professionalism Committee, the members of which are listed in an Appendix to this statement. It has also been subject to the due process required for it to constitute a formal view of the IAA, and will be posted to the IAA’s official web site.

**IAA Comments**

The IAA appreciates this opportunity to comment on the interim assessment report of the Morris Review (“the Review”) concerning the actuarial profession in the United Kingdom. The Review has clearly gone to tremendous effort to familiarize itself with the actuarial profession worldwide. We welcome the Review’s receptivity to information provided by the international actuarial community and are grateful to have had the occasion to speak in person with Sir Derek Morris and Ms. Niki Cleal at our November 2004 meeting.

We anticipate that our colleagues at the Institute and Faculty of Actuaries will respond to the interim assessment report and will address the specifics of the Review’s initial findings in a UK context, including which of the various options suggested are most appropriate in the context of UK business practice and custom. Some of the IAA’s member associations may also submit additional information concerning the specifics of actuarial practice in their countries in the context of the Review’s recommendations. The IAA’s comments below are provided from an international perspective and are focused on aspects of the interim assessment report in that context, and particularly on potential misconceptions that may be drawn from the Review’s initial conclusions.

The international actuarial profession contributes greatly to the financial stability of the world economy. While incidents such as the one that originally led to this investigation reasonably give rise to major concerns, it should not be overlooked that in the vast majority of instances worldwide insurance companies maintain adequate provisions for liabilities (or reserves) and employee benefit schemes are appropriately funded. Actuaries play a critical role in maintaining the financial soundness of insurance companies, employee benefit schemes and other financial institutions upon which the public relies and the context in which such financial entities operate can differ significantly in different countries.

We are therefore concerned that the Review’s preliminary observations concerning the UK actuarial profession have the potential to be misconstrued by readers elsewhere in the world unless the Review’s final report is carefully limited in its scope and appropriately balanced. We do not feel that it is appropriate or necessary for the IAA’s submission to deal point by point with each of the Review’s observations. However, we would encourage the Review to ensure that the context of each of its assertions is clearly stated, and hence not open to broader interpretation or application than is appropriate or intended.

The IAA acknowledges that, as with any profession, there is scope for improvement within the actuarial profession, which the IAA will continue to emphasize and address in our own plans and actions. However the IAA also entirely agrees with the Review’s observations in paragraph 1.12 of the interim assessment report. In fact, we consider those observations sufficiently essential to reprint them here:

No evidence has been received in the course of this review to suggest that the overwhelming majority of actuaries in the UK are anything other than dedicated, skilled professionals providing important and useful advice to the best of their abilities, with commitment, integrity and a strong sense of professional duty. In addition, as a result of the review’s extensive contact with other actuarial professions around the world, reported on later, it is clear that the UK profession is well respected and, in some instances has been a world leader in moving the profession forward globally. A number of representatives of overseas actuarial professions stressed that they attached considerable importance to the outcome of this review because, in a number of areas, any reforms of the profession in the UK would be likely, if widely accepted, to have an impact on actuarial professions elsewhere in the world. *It is important that these perspectives not be forgotten in the rest of this interim assessment report if a properly balanced picture is to emerge.*<sup>1</sup>

In our experience, the overwhelming majority of actuaries worldwide are “dedicated, skilled professionals providing important and useful advice to the best of their abilities, with commitment, integrity and a strong sense of professional duty.” Indeed, the primary reason for restructuring the IAA in 1998, after more than a century of proud history, was to support actuaries in their efforts to establish and maintain uniformly high standards of conduct, practice and qualification and to encourage high levels of professionalism for actuaries around the globe. The profession’s commitment to collective and individual excellence should not be understated in the Review’s final report.

We also believe that any call for improvement of the actuarial profession should be accompanied by an appropriate recognition that the recipients of actuarial work products should also be in a position to use them appropriately. For example, the interim report calls for actuaries to improve their communications skills, but does not give sufficient weight to the responsibility of actuaries’ principals to educate themselves to ensure they are in a position where they can make appropriate use of actuaries’ work. Recipients of actuarial

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<sup>1</sup> Morris Review Interim Assessment Report, ¶ 1.12 (emphasis added).

reports, particularly those provided in a statutory capacity, need to understand the control role that they are intended to play and to satisfy themselves that they adequately understand the implications of the report and its underlying assumptions. We think this significant issue should be more fully addressed in the final report.

### **Actuarial involvement in long term savings**

The IAA's concern in relation to certain potential misconceptions that may be drawn from the Review's initial conclusions is heightened by the fact that at least some of the circumstances described in the interim assessment report do not exist worldwide. One example is that the Review observes that there exists in the United Kingdom a long-term savings crisis for which it appears to hold the UK actuarial profession partially to blame. The position in relation to long-term savings varies internationally. For example, in a recent invitation to its upcoming Contractual Savings Conference, the World Bank stated:

The past two decades have witnessed unparalleled growth in contractual savings (assets of life insurance and pension funds). In various countries contractual savings accumulated at rates higher than GDP growth. In addition, there are countries where assets of contractual savings institutions represent more than 100 percent of GDP and became dominant financial intermediaries.<sup>2</sup>

Thus, there are high levels of contractual savings in a number of countries. On the other hand, the adequate funding of retirement provisions for an ageing population in the longer term is a significant issue in a number of countries, and there have also been well-publicized funding shortfalls for both public and private pension schemes in some countries in recent years due to a number of influences, including significant stock market falls, falling interest rates and unexpectedly rapid increases in longevity.

However patterns of long-term savings are based on a complex network of economic, political and cultural factors that differ significantly between countries and, while actuaries play an important role in both insurance and pension fund design and operation, they do not have exclusive responsibility for the success or failure of either. Consequently, the actuarial profession cannot claim exclusive credit for the existence of strong contractual savings where they exist, but neither should the profession be held exclusively responsible in countries where long-term savings may not prove sufficient to meet projected needs.

### **Reserved roles for actuaries**

With respect to reserved roles for actuaries, we do not believe that the interim assessment's criticisms of the actuarial profession provides sufficient basis for reducing the statutorily reserved roles held by UK actuaries because we believe that actuaries are uniquely qualified to fulfill those roles and, thereby, to benefit the public. We acknowledge that, when actuaries move outside their statutory role of identifying and quantifying contingent liabilities for insurers and pension schemes, "there are roles that can be and frequently are also performed

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<sup>2</sup> Letter of Gregorio Impavido, Senior Financial Economist, Financial Sector and Operations Department, The World Bank (November 29, 2004).

by non-actuaries, often possessing alternative professional qualifications.” (*Morris Review Interim Assessment Report*, ¶ 4.3.)

The IAA would not presume to identify specific roles in the UK financial services industry that should be reserved for actuaries beyond those already identified in statute, although we believe that a reserved role for actuaries in general insurance, with associated public interest responsibilities, could certainly be beneficial. In any event, we urge that no steps should be taken to prevent actuaries whose skills qualify them to move beyond statutory practice into related areas of business from doing so. Rather, we believe that the market will appropriately recognize actuaries whose talents qualify them for practice in wider fields.

We also believe that the actuarial profession’s current and ongoing commitment to professionalism supports individual actuaries in practicing with integrity and competence, bringing significant value to their work whether they practice in traditional roles or wider fields. It would be unfortunate if the public were deprived of that value.

Indeed, it is important to emphasise in this context that actuarial skills should not be perceived as being limited to analysis of the liability side of the balance sheet. A key aspect of long-term liability analysis involves appropriate assessment and valuation of both assets and liabilities. Further, actuaries internationally and in the UK have been at the forefront of the scientific study of investment analysis, performance measurement, cash flow matching, stochastically based solvency assessment, the valuation of complex assets and financial structures and risk management and assessment. However, readers of the Review’s report may draw the (in our view inappropriate) conclusion, based on the analysis by the Review, that the primary skills of the actuarial profession (either in the UK or internationally) are limited to long-term liability analysis.

### **Actuaries and “the public interest”**

As indicated in the previous submission by the IAA to the Review, the actuarial profession has a collective responsibility to the public interest that is served both by standard-setting and enforcing high professional standards for its members, as well as by advising public policy makers when laws, regulations, or customary practices can have negative actuarial implications that could be harmful to the public interest. However we also concur with the Review’s observation that “there must be clarity over whether and to what extent individual actuaries and the [UK] Profession should serve the public interest.” (*id.* at ¶ 5.1) The Review is correct in stating that actuaries “work in areas of fundamental importance to the overall financial stability of the economy” (*id.* at ¶ 5.3), and in recognizing throughout the remainder of Section 5 of the interim assessment report that the ways in which actuaries work in the public interest vary depending on the practice area and professional service being performed.

We think it essential, however, that the Review is clear as to what it intends when referring to the “public interest” for the purposes of actuarial practice. Typically actuaries act as advisors, not decision makers, and it is the Board of Directors or other governing body that bears overall responsibility for the financial solvency of an insurance company or pension plan. It is also the case that an actuary may play an important role in the design of an

insurance product but have relatively limited influence concerning how that product is marketed to consumers, which is a critical element of the creation of policyholder expectations. When, by “serving the public interest,” the Review intends that the actuary provides honest and competent advice to companies and makes a consistent, good faith effort to avoid having his or her work used to mislead regulators, shareholders, consumers, pension scheme participants or the public at large, we believe that most, if not all, actuaries would be comfortable representing themselves as “serving the public interest” in their daily practice.

However when the phrase “serving the public interest” means that the actuary is required to function as an advocate for consumers or “blow the whistle” on management conduct that the actuary considers to be unlawful or unethical, these expectations of the actuary should be clearly stated in advance and be accompanied by appropriate legislative support. Actuaries can successfully fulfill a variety of functions, including that of whistleblower, but we believe that actuaries should be given advance notice of what is expected of them. The role of whistleblower is a significant one, and puts the actuary in the position of serving as a quasi-regulator rather than a professional advisor to management. Hence, this role can alter the actuary’s working relationships and creates the need for changes in the law to protect the actuary from retaliation.

Returning to the Review’s recognition that the overwhelming majority of UK actuaries are “dedicated, skilled professionals providing important and useful advice to the best of their abilities, with commitment, integrity and a strong sense of professional duty” (*id.* at ¶ 1.12), it is important in our view that the Review does not recommend statutory or regulatory changes that are likely to create an adversarial relationship between actuaries, their principals and the management of the companies and pension schemes actuaries serve. Such an adversarial relationship would be unlikely to contribute to (and may in fact act against) the provision of soundly based, consumer focused financial services or pension arrangements.

The interim assessment’s focus on whistleblowing, the need for protection of the whistleblower, the need to establish and define “hierarchies of accountability” and the circumstance when whistle blowing is required will be welcomed. However, further detailed work will be needed to develop practical proposals in these areas.

### **Governance, discipline and standard-setting**

Again, as indicated in our initial submission to the Review, the IAA places significant importance on the development and implementation of high standards of governance, discipline and standard-setting internationally as evidenced by the requirements to be met in these areas for membership of the IAA.

With respect to self-governance, we understand that the U.K. profession has already developed and begun to implement a plan to establish independent standard-setting and disciplinary bodies. The international actuarial community is very interested in governance issues, and is engaged in active dialogue concerning independence and self-governance. The IAA also supports the development of international guidance on actuarial practice that is not nation-specific to supplement national standards when it is appropriate and necessary to do so, as has been the case recently in relation to International Financial Reporting Standards. It

is clear, however, that a single approach to governance and standard-setting is not likely to be practical or appropriate internationally. Variations in laws, business customs, culture, tradition, and circumstances make it essential for the actuarial profession in each country to develop an approach to standard-setting and discipline that reflect the particular context of that country.

Nevertheless, the Review's recommendations in regard to governance and standard-setting are of significant interest to the IAA. We hope that its findings will not be framed in such a way as to encourage only **one** approach to governance and standard-setting worldwide.

The Review's recommendations will certainly be studied worldwide, and hence potentially have implications for, not only Fellows of the UK actuarial bodies working outside the UK and Fellows of other actuarial associations working in the UK, but in fact to many actuaries around the world. The recommendations are intended (as has been stated) for the UK environment and it is very important, from the IAA's perspective, that the Review's conclusions and recommendations are accompanied by an explicit "warning" that they are intended for the UK environment and that in different legal or business environments the role and tasks of the actuary might differ considerably from the role in the UK and thus the recommendations are not necessarily valid.

Finally, we would also encourage the Review to note potential practical considerations when framing its ultimate recommendations. The IAA and national actuarial associations will be cognizant that implementation of some changes consistent with the recommendations of the Review may be problematic for actuaries practicing in countries where the profession's representation and resources are smaller, and also unsuitable for some specific markets.

### **Conclusion**

In conclusion, the IAA appreciates this opportunity to make a further contribution to the Morris Review. We appreciate the effort that the Review has taken to familiarize itself with the actuarial profession worldwide and look forward to the final report, which we anticipate will draw attention to and address many important issues of relevance to actuaries as well as other professions. We intend to continue to address many of these issues, in our efforts to enhance the contribution of the actuarial profession internationally and nationally, in the delivery of best practice actuarial services and advice to users, consistent with the public interest.

Please do not hesitate to call upon us for any additional information or assistance by contacting the Chairperson of the IAA's Professionalism Committee, Helen Martin, through the IAA Secretariat.

### Members of the IAA Professionalism Committee

Helen Martin	Chairperson
Simon Van Vuure	Vice-Chairperson
Andris Barlots	Latvijas Aktuaru Asociacija (Latvia)
Luciana Bastos	Instituto Brasileiro de Atuária (IBA) (Brazil)
Mario Jesus Beltrán	Colegio Nacional de Actuarios A.C. (Mexico)
Amy S Bouska	Casualty Actuarial Society (United States)
Michael Codron	Actuarial Society of South Africa
Norman Crowder	Conference of Consulting Actuaries (United States)
Isagani de Castro	Actuarial Society of the Philippines
Norbert Heinen	Deutsche Aktuarvereinigung e.V. (DAV) (Germany)
Johan Heymans	Association Royale des Actuaire Belges (Belgium)
Lawrence A Johansen	American Academy of Actuaries (United States)
Aisling Kennedy	Society of Actuaries in Ireland
Tarmo Koll	Eesti Aktuaaride Liit (Estonia)
Hillevi Mannonen	Suomen Aktuaariyhdistys (Finland)
David Bernard Martin	Faculty of Actuaries (United Kingdom)
Helen Martin	Institute of Actuaries of Australia
Jean-Louis Massé	Canadian Institute of Actuaries (Canada)
Riccardo Ottaviani	Istituto Italiano degli Attuari (Italy)
Michael Pomery	Institute of Actuaries (United Kingdom)
George Psaras	Cyprus Association of Actuaries
Gottfried Rey	Association Suisse des Actuaire (Switzerland)
Walter Rugland	Society of Actuaries (United States)
Roland Van Den Brink	Het Actuarieel Genootschap (The Netherlands)
Harry Wide	Svenska Aktuarieföreningen (Sweden)
Masaaki Yoshimura	Institute of Actuaries of Japan



### Full Member Associations of the IAA

Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)  
Institute of Actuaries of Australia (Australia)  
Aktuarvereinigung Österreichs (AVÖ) (Austria)  
Association Royale des Actuaire Belges (Belgique)  
Instituto Brasileiro de Atuária (IBA) (Brazil)  
Canadian Institute of Actuaries/Institut Canadien des Actuaire (Canada)  
Cyprus Association of Actuaries (Cyprus)  
Česká Společnost Aktuárů (Czech Republic)  
Den Danske Aktuarforening (Denmark)  
Egyptian Society of Actuaries (Egypt)  
Eesti Aktuaaride Liit (Estonia)  
Suomen Aktuaariyhdistys (Finland)  
Institut des Actuaire (France)  
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)  
Hellenic Actuarial Society (Greece)  
Actuarial Society of Hong Kong (Hong Kong)  
Magyar Aktuárius Társaság (Hungary)  
Félag Islenskra Tryggingastærðfræðinga (Iceland)  
Actuarial Society of India (India)  
Society of Actuaries in Ireland (Ireland)  
Israel Association of Actuaries (Israel)  
Istituto Italiano degli Attuari (Italy)  
Institute of Actuaries of Japan (Japan)  
Japanese Society of Certified Pension Actuaries (Japan)  
Latvijas Aktuaru Asociācija (Latvia)  
Lebanese Association of Actuaries (Lebanon)  
Persatuan Aktuari Malaysia (Malaysia)  
Colegio Nacional de Actuarios A. C. (Mexico)  
Het Actuarieel Genootschap (Netherlands)  
New Zealand Society of Actuaries (New Zealand)  
Den Norske Aktuarforening (Norway)  
Actuarial Society of the Philippines (Philippines)  
Polskie Stowarzyszenie Aktuaruszy (Poland)  
Instituto dos Actuários Portugueses (Portugal)  
Academia de Actuarios de Puerto Rico (Puerto Rico)  
Singapore Actuarial Society (Singapore)  
Slovensko Aktuarsko Drustvo (Slovenia)  
Actuarial Society of South Africa (South Africa)  
Col.legi d'Actuaris de Catalunya (Spain)  
Instituto de Actuarios Españoles (Spain)  
Svenska Aktuarieföreningen (Sweden)  
Association Suisse des Actuaire (Switzerland)  
Actuarial Institute of the Republic of China (Taiwan)  
Faculty of Actuaries (United Kingdom)  
Institute of Actuaries (United Kingdom)  
American Academy of Actuaries (United States)  
American Society of Pension Professionals & Actuaries (United States)  
Casualty Actuarial Society (United States)  
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