

Commentary

BUFFIN PARTNERS INC.

ECONOMIC INVESTMENT AND ACTUARIAL RESEARCH

Morris Review of the Actuarial Profession

Following the financial difficulties experienced by the Equitable Life Assurance Society in the United Kingdom, Lord Penrose issued a report that was critical of many parties involved, including the Equitable's actuaries who were held responsible for the Society's inability to meet policyholders' reasonable expectations. The Equitable incident also led to a decision by the UK government to undertake a "Review of the Actuarial Profession" under the leadership of Sir Derek Morris, with a broad mandate to consider what professional and other regulatory framework would best promote recognized, high-quality and continuously developing actuarial standards, openness in the application of actuarial skills, transparency in the professional conduct of actuaries, accountability for their actions and an open and competitive market for actuarial advice in the UK.

Although the Morris Review is specifically a review of the actuarial profession in the United Kingdom, several aspects of the review may be considered as applicable to the profession in other countries and will be of interest and direct relevance to both practitioners and users of actuarial services around the world. After an initial consultation phase, in which the Morris Review sought facts and opinions regarding the actuarial profession, an interim report has been issued by the Morris Review that has identified the following major issues:

- The profession overall has been too insular and slow to adapt to changing circumstances
- There has been insufficient transparency in actuarial advice
- There has been inadequate scrutiny, challenge and market-testing of actuarial advice by users
- There has been a lack of clarity about the accountability of actuaries to the wider public interest
- The educational syllabus for UK actuaries has failed to take full account of

developments in actuarial and non-actuarial thinking

- Professional standards have been weak, ambiguous or too limited in range
- Self-regulation has not been sufficient to address these issues.

It is evident that the Morris review is somewhat critical of the status quo in the profession as indicated by the tone of its critique in the following selective quotes:

- Useful inputs from the disciplines of economics, statistics and demography have less impact than they should
- Actuaries avoid or resist clear presentation of the risks and uncertainties that accompany long-term projections
- Much of what actuaries do overlaps with the work of financial analysts, economists, statisticians, demographers and others
- Actuaries failed to allow adequately for the persistently downward path of inflation and interest rates in the 1990's; failed to allow adequately for the subsequent precipitate fall in the stock market; failed to question sufficiently the prevailing orthodoxy that high equity returns could be expected to provide healthy long-term returns with a degree of confidence appropriate to bond investments
- Actuaries were too slow to adjust to the changing circumstances, too inflexible to consider or reflect sufficiently on the likelihood or the consequences of large adverse movements
- Against a backdrop of considerable turbulence and change, attempts are in train to achieve a degree of international convergence of actuarial standards
- Actuarial appointments may restrict competition from non-actuarial professionals, such as fund managers, who wish to compete for services, in particular, advice on asset allocation
- Weaknesses in self-regulation by the profession include: inadequate protection of the public interest, for example, pension plan under-funding; standards and

practice perceived as influenced by commercial interests; absence of pro-active monitoring of actuaries' compliance with professional standards; a profession too introspective, not forward-looking and slow to modernize

- It is essential to overall financial stability that assessments of long-term liabilities of insurers and pension funds are done well.

On balance, the findings of the Morris Review are objective and accurate. Although some members of the profession may have different opinions from those expressed by the Morris Review on certain aspects of the interim report, the constructive criticisms and likely recommendations of Sir Derek Morris will serve to strengthen the profession in the long run and improve the degree of public confidence in actuarial practices and methodology.

In the United States, the actuarial profession will be studying the report of the Morris Review and will doubtless take credit for being well positioned with respect to its own standards of practice. But it will also need to evaluate how it compares against the various areas of concern and criticism detailed in the report of the Morris Review. It is one thing to have an inventory of approved standards of practice. It is another question, however, as to the extent to which those standards are implemented in practice. Moreover, it would seem to be appropriate to consider a major concern expressed in the Morris Review, namely, how to monitor the extent to which compliance with published standards of practice is achieved.

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