



Think**Results!**

Think**Experience**

Think**BigPicture** []

Think**FullSpectrum** < >

Think**Partnership** +

Think**Hewitt**

Financial Economics and Actuarial
Practice: The Debate Rages On

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Actuaries in the UK – a cautionary tale?

- **In 2000 the Equitable life “failed” – it had been a mutual since 1760.**
- Penrose report 2004
 - “Actuarial certification of liabilities was a significant contributor to the disastrous collapse of confidence in the life and pensions industry”
 - “A highly competitive industry [Life Assurance] exploited consumer ignorance”
 - Actuaries as a profession were too inward looking
- Morris report 2005 into the actuarial profession
 - Profession allowed unrealistic forecasts of performance, inflexible, did not sufficiently warn of the impact of large adverse moves
 - Too introspective... slow to modernise... insufficient transparency in advice
 - Failed to question orthodoxy that high equity returns could be relied on to provide healthy long term returns
 - Commercial interests may have superseded the interests of the public
 - Weak ambiguous standards, contentious issues not resolved, inconsistent approaches across practice areas
 - Conclusion: the profession should no longer regulate itself
- **Actuarial standards now set by an independent “Board for Actuarial Standards”**

..and in pensions-land?

- Pension funds saw gold turn to dust...
- A “perfect storm”
 - Falling interest rates, falling equity markets, increased longevity and greater disclosure
- or poor advice?
- High level of criticism in the press – many a story of Poor Pensioner “robbed”
- Government response The 2004 Pensions Act, introduced
 - A UK version of the PBGC – the Pension Protection Fund PPF
 - The Pensions Regulator
 - “A pension Scheme in deficit should be treated in the same way as any other material unsecured creditor”
 - “If there is a doubt [that the employer is a going concern] then the appropriate measure is the buy-out deficit”

The four horsemen of the pensions Apocalypse



**Falling
Interest Rates**



**Falling Equity
Markets**



**Mortality
Improvement**



**Accounting
Standards**

..and in pensions-land?



Pensions:

- Move to Liability Driven Investing (LDI) – hedging
- Take account of sponsor covenant – credit risk
- Risk based levy for the PPF – deficit x Probability of default
- Ericsson/Marconi deal
- Pension deals – ie Sainsbury's, HBOS, British Airways etc etc
- Accounting/disclosure under further review – more transparency coming

Insurance

- Realistic balance sheets
- Mark-to-market methodology: see GN45