Institute and Faculty of Actuaries

CONFLICTS PENSIONS CASE STUDIES

Case Study A: Trustee/Employer conflict

You are a Scheme Actuary and you have just carried out a scheme funding valuation on assumptions agreed by the Trustees and presented initial results, which the company are copied in on. The company then asks you to use those same assumptions to calculate the impact on future service costs if the benefits are changed in some way.

This request was made without the company telling the Trustees that it was asking you to carry out this work.

Case Study A: Discussion Points

1. Who is your client? To whom do you owe duties of confidentiality and disclosure?
2. What sections of APS P1 v 2 might be relevant here?
3. Would your answer be different if your number 2 or a member of your team had been asked to undertake the calculation instead?
4. How would you respond to the request being made without the company telling the Trustees that you were being asked to carry out this work?
5. What would your response have been as the Scheme Actuary if the company had informed the Trustees of the request and you had been asked to copy your reply to the Trustees?
6. What would your response have been if the request had been made a year after the previous Scheme Funding valuation had been completed so that you were required to use some of your professional judgement in relation to the assumptions to be used?
7. Would your response be any different if the company had asked the Trustees to make the request to you, so that you respond to the Trustees and copy your reply to the company?

Case Study B: Professional and Personal Conflicts

You recently replaced a retiring colleague as Scheme Actuary to Scheme Bond. Scheme Bond is one of your firm's clients and you have worked on it for many years. Your firm also provides:

- advice to the Employer (from another office of your firm) on accounting under FRS17/IAS19. With the Employer's and Trustees' knowledge, the actual calculations are done by your team under instruction from the actuary advising the Employer. Over the last 3 years, you have signed off the calculations as consistent with the assumptions and methods specified by the Employer, making clear that you are not giving advice on the actuarial assumptions.
- administration services to the Trustees. The head of the administration division is an actuary, but does not hold a Scheme Actuary certificate.

The pension scheme is complex and it has been many years since the Trust Deed and Scheme Rules were consolidated. There are old Amending Deeds, one of which appears to require that the benefits should mirror an earlier scheme for one participating employer. During the previous actuarial valuation, you had found that in one respect administration was inconsistent with this, having not been "mirror image", and actuarial valuations have been carried out in accordance with the way the Scheme is administered.

The participating employer is large, and there would be a material impact on the actuarial valuation if the Scheme had to be administered/valued in accordance with the "mirror image" formula (to say nothing of the immense task of revisiting previous benefits paid or communicated).

During the previous valuation you had raised the issue with your predecessor Scheme Actuary and had then discussed it with senior colleagues. You had not been party to the subsequent discussion but had been told that the issue had been satisfactorily resolved without remedial action being required, after the head of the administration division had presented a paper on it to the Trustees. Although relieved, you had several residual concerns:

- the matter had not been flagged to your Legal and Compliance department as a potential claim;
- although you had seen the Trustee Minute that benefits should continue to be administered as per the prevailing practice, you had not seen the paper to the Trustees, and the Trustee Minute of the matter was short on detail;
- so far as you know, the Trustees took no legal advice. They rely heavily on your firm, and would almost certainly have been swayed by the way in which your colleague had presented the issue; and
- the matter had not been raised with the Employer nor brought to the attention of your colleagues who advise the Principal Employer in connection with FRS17/IAS19 and other matters.

However, due to pressures of work you had not pursued any of these points at that time. An actuarial valuation has fallen due; the first you will be carrying out as Scheme Actuary for Scheme Bond.

Case Study B: Discussion Points

1. What areas of APS P1 v2 and the Actuaries' Code are relevant?
2. What issues arise for you as the Scheme Actuary given your previous work on the calculations for the Employer?
3. What issues arise in relation to the other two actuaries identified above i.e. the:
    a. The previous Scheme Actuary
    b. The Head of the Administration Division
4. What action should you take as the Scheme Actuary and why?
5. Is there a way forward which is consistent with the Actuaries' Code which could minimise any adverse consequences to you and your firm?
6. If you did decide you could not proceed with the actuarial valuation without raising your concerns about the interpretation of the Amending Deed, how would you present the issue to the Trustees?

LIFE CONFLICTS OF INTEREST CASE STUDY 2013

Case Study: Actuarial prudence v. shareholder pressure

Lear Company is a proprietary life insurance company listed on the UK stock exchange. Its in-force portfolio comprises a range of conventional without profits and unit-linked products, including a large portfolio of level immediate annuities which are mainly backed by UK corporate bonds. You are the Actuarial Function Holder of Lear Co.

In late 2008 credit spreads on UK corporate bonds widened significantly as a result of the global credit crisis. For the year end 2008 valuation, you recommended a very low valuation rate of interest for the annuity portfolio. This reflected a high expected credit default assumption, an additional allowance for the risk of mis-estimating this allowance, and a further margin for prudence.

Your recommendation was adopted by the Board and as a result, Lear Co. incurred a substantial loss during 2008. The share price fell dramatically and the company received adverse publicity which was more negative and damaging than the Board had anticipated.

It is now late 2009 and credit spreads have narrowed to some extent. The corporate bond manager in the investment department of Lear Co. has indicated that she believes that the credit default allowances in the valuation basis are now too large.

A group of major shareholders of Lear Co. has approached the Board of directors. The shareholders believe that the basis used at year end 2008 was unnecessarily prudent and are demanding a significant release of reserving “margins” in order to reduce the cost of capital, support the 2009 profit statement and allow the share price to recover.

You have received a communication from the Board explaining this position and asking you to reflect it in your valuation basis for year-end 2009.

However you strongly believe that there is still considerable uncertainty about the economy and that it is too soon to release more than the absolute reduction in credit spreads that has occurred over the year.

How should you proceed?

Life Case Study: Discussion Points

1. Who is your client? To whom do you owe duties of confidentiality and disclosure?
2. Can the Board ask you to tailor your recommendation?
3. Do you have a duty to protect the policyholders? Might they also be considered to be your client?
4. Do you have a personal conflict?
5. What might you do to ensure your independence?
6. What steps might you take before making your recommendation?
7. What additional considerations might arise if your remuneration package includes a bonus which is directly linked to profit and/or you hold share options in Lear Co.?
8. What steps might you take if others perceive that there might be a conflict of interest regarding your remuneration package?

GENERAL INSURANCE CASE STUDY 2013

Case Study: advising on commutations

In 2011, you were a GI actuary employed at Hamlet Insurance Company. One part of your role involved advising the company on commutations. Last year the company went into run-off and you were made redundant.

You are now working as a consultant. You are approached by Ophelia Insurance Company who wish to employ you as a consultant on commutations (that is to advise them in relation to insurance or reinsurance contracts with persons or entities, where, for various reasons, either or both parties wish to reach a financial settlement to cancel all or part of the obligations that remain under the relevant contracts). Your first piece of advice concerns advising on a commutation with Hamlet Insurance Company – and as luck would have it, on a commutation on which you used to work.

Case Study: Discussion Points and Suggested Answers

1. Can you accept the job with Ophelia Insurance Company?
2. Can you accept the particular engagement advising on the commutation with Hamlet Insurance Company?
3. If you do accept the job with Ophelia Insurance Company, would it make any difference if you had not worked on Hamlet Insurance Company's commutation but someone else employed by Hamlet Insurance Company had worked on that commutation?
4. Could you alleviate any conflict by using peer review as an option?
5. What structures might you suggest putting in place to do any work for Ophelia in relation to Hamlet Insurance Company in the future?