

# Conflicts of Interests

## An Actuarial Perspective



Frank Downey

Invesco



iapf

# Conflict of Interest

- A conflict of interest occurs when an individual or organisation is involved in multiple interests, one of which could *possibly* corrupt the motivation for an act in the other.
- Many potential conflicts may exist – they need to be identified, monitored and managed



iapf

# Conflict Spectrum

1. No current conflict
2. Possibility of theoretical conflict
3. Potential for conflict
4. Expectation of conflict
5. Actual conflict



iapf

# Pension Scheme Conflicts

- Trustee context

*Personal interest or duty to another party conflicts with fiduciary duty to scheme e.g. finance director as trustee*

- Adviser context

- *Conflict of interest between the interests of the adviser and those of client*

- *Conflicts arising from two clients, e.g. Trustees and Employer*



iapf

# Potential Actuarial Conflicts

- Is the objectivity of your actuaries threatened by conflicts of interest or other undue pressures?
- Do your actuaries have other interests or responsibilities that might affect their perceived objectivity, e.g. advising the Trustees and the Employer?



iapf

# Actuaries' code of practice

- Clients entitled to assume no other interests affect advice (taking account of third party duties owed by client)
- If potential conflict exists, actuary must consider the nature and extent of conflict and whether it is “improper” to give advice
- Obligation to notify and disclose
- Restriction on disclosure of information



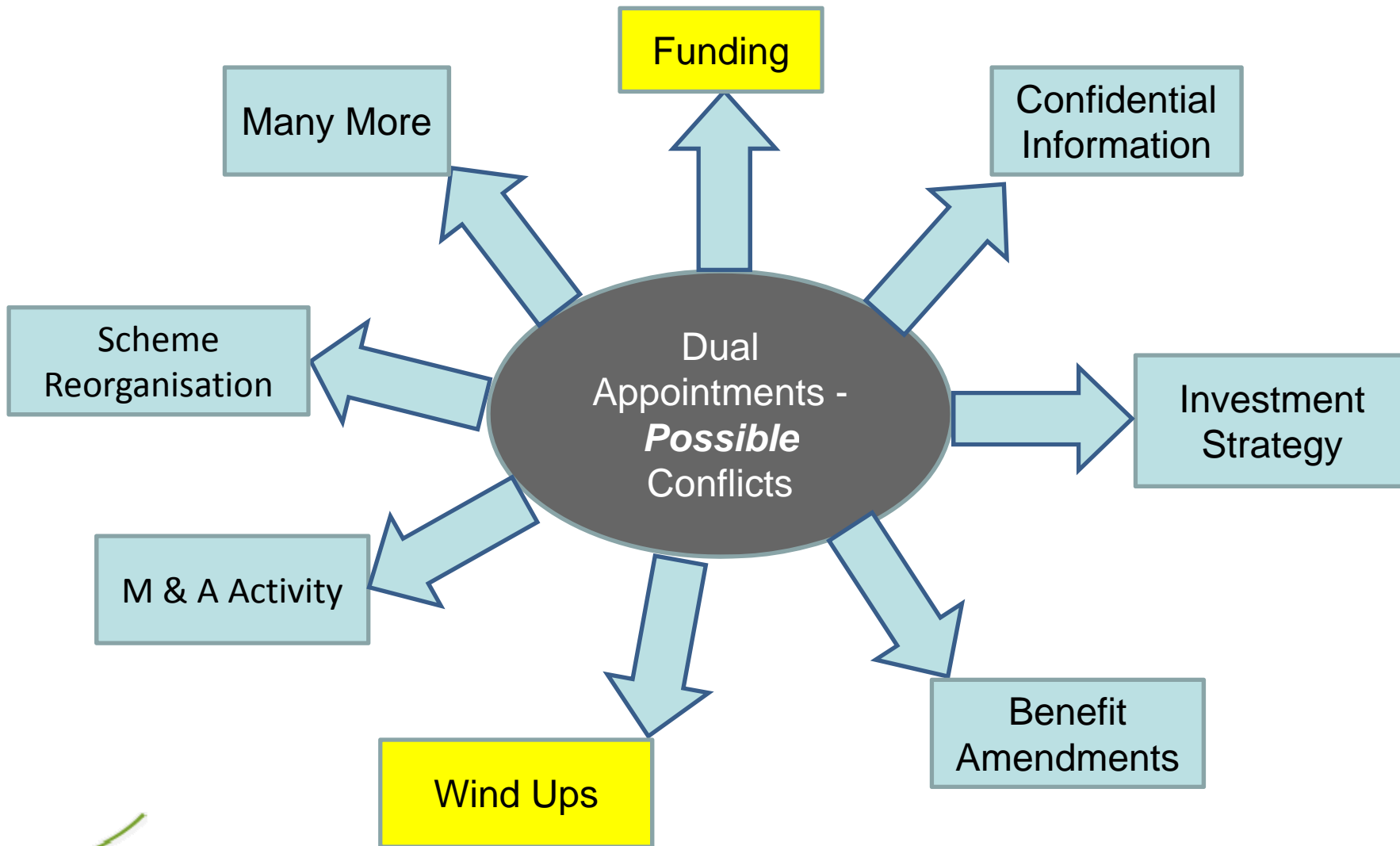
iapf

# Advising Trustees and Employer

- Usually there is an alignment of interests of the Trustees and Employer
- There will generally be cost and other advantages in using the same actuary
- There should be no issue for example in the actuary advising the Trustees and also providing accounting information for the Employer
- Nonetheless, conflicts of interest can arise from time to time



# Possible Conflicts





iapf

# Funding

- Look at Trust Deed and Rules
- Who sets the contribution rate, e.g.
  - *Trustees having regard to advice of actuary*
  - *Trustees with agreement of Employer having regard to advice from actuary*
  - *Employer*
- Right of Employer to terminate contributions – is there a notice period?
- Is actuary advising Trustees or Employer?



iapf

# Funding Proposal

- Funding Proposal is agreed between the Trustees and the Employer and certified by the Actuary
- Trustees will be seeking to restore scheme to solvency over a reasonable period while minimising risk
- Employer will be seeking to minimise contribution requirement



iapf

# Funding Proposal

- Limited scope for conflicts on *assumptions* as these are set in actuarial guidance:
- Should be no conflict in doing actual figures and scheme actuary has to certify anyway
- Conflicts could arise over giving advice on options
- Main areas of potential conflict:
  - *term of funding proposal*
  - *investment policy*
  - *Section 50 amendments*



iapf

# Wind Up

- Scope for conflict on basis for calculating contribution payable – either in notice period or in anticipation of possible wind up
- Possible conflicts over calculation of transfer values
- Possible conflicts over use of surplus

- Principle: clients entitled to assume no other interests affect advice.
- Protocol to be put in place where there are dual appointments
- If actual conflict actuary **MUST** suspend, cease or modify one (or possibly both) appointments
- *Where there is an actual conflict, can one actuary from same firm act for the Trustees and another act for the Employer?*



iapf

# Conflict Management Protocol

- Scope of each appointment
- Action to be taken if there is an actual conflict
- Confidential information
- Should specify who is primary client
- Scheme actuary should not act for Employer if there is a material conflict



iapf

# UK Regulator Guidance

- Trustees should actively manage their relations with advisers to ensure that they are able to provide independent advice
- Advisers should declare any conflicts that may arise on a timely basis
- Consider in advance whether adviser can act where a conflict with the Employer may arise
- Evaluate the nature of the conflict, where it has been declared, and determine an appropriate course of action



iapf

# Conclusions

- Dual appointments need to be managed for potential conflicts
- Actuary should recognise any conflict he or she has and advise Trustees
- Letter of engagement – Trustees should be primary appointment
- Conflict Management Protocol
- ***Identify – Monitor – Manage***

# Conflicts of Interests

## An Actuarial Perspective



Frank Downey

Invesco