InQA: The valuation 'food chain' for DB pension plans

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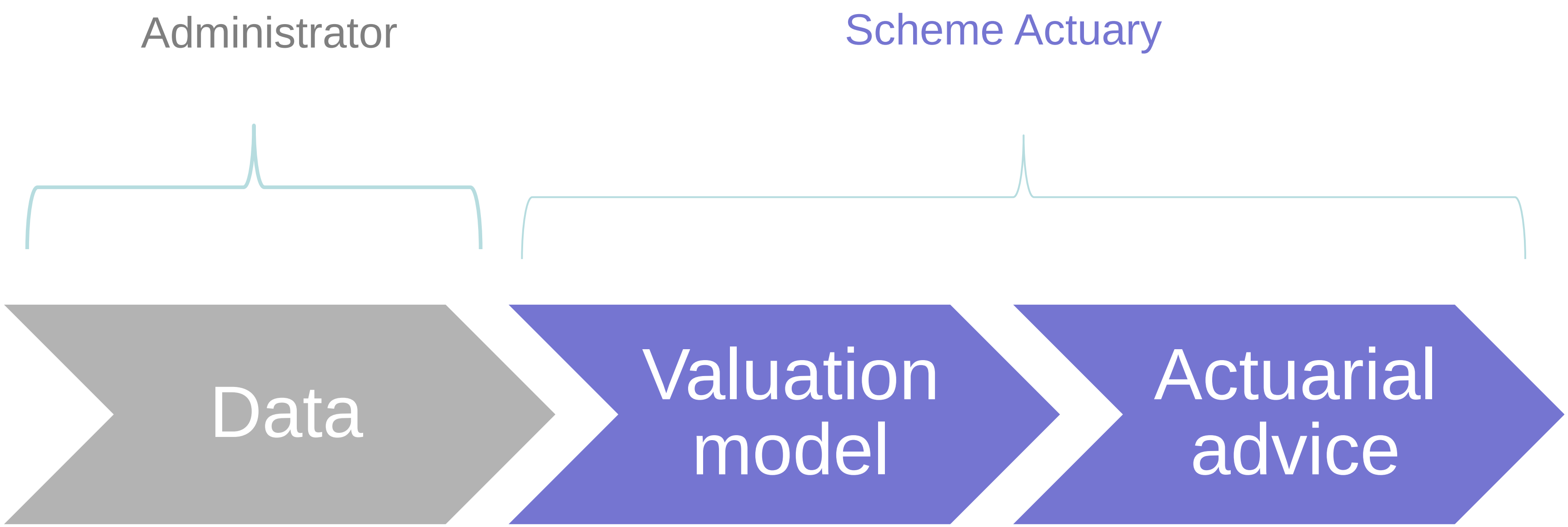
InQA
ACTUARIAL SOFTWARE

The traditional actuarial valuation ‘food chain’



Traditionally the Scheme Actuary has ‘owned’ the valuation system / model. Other advisers either relied on the Scheme Actuary’s calculations or developed their own valuation models.
Technical Actuarial Standards issued recently by the FRC encourage thinking of the valuation model as separate from the provision of actuarial advice.

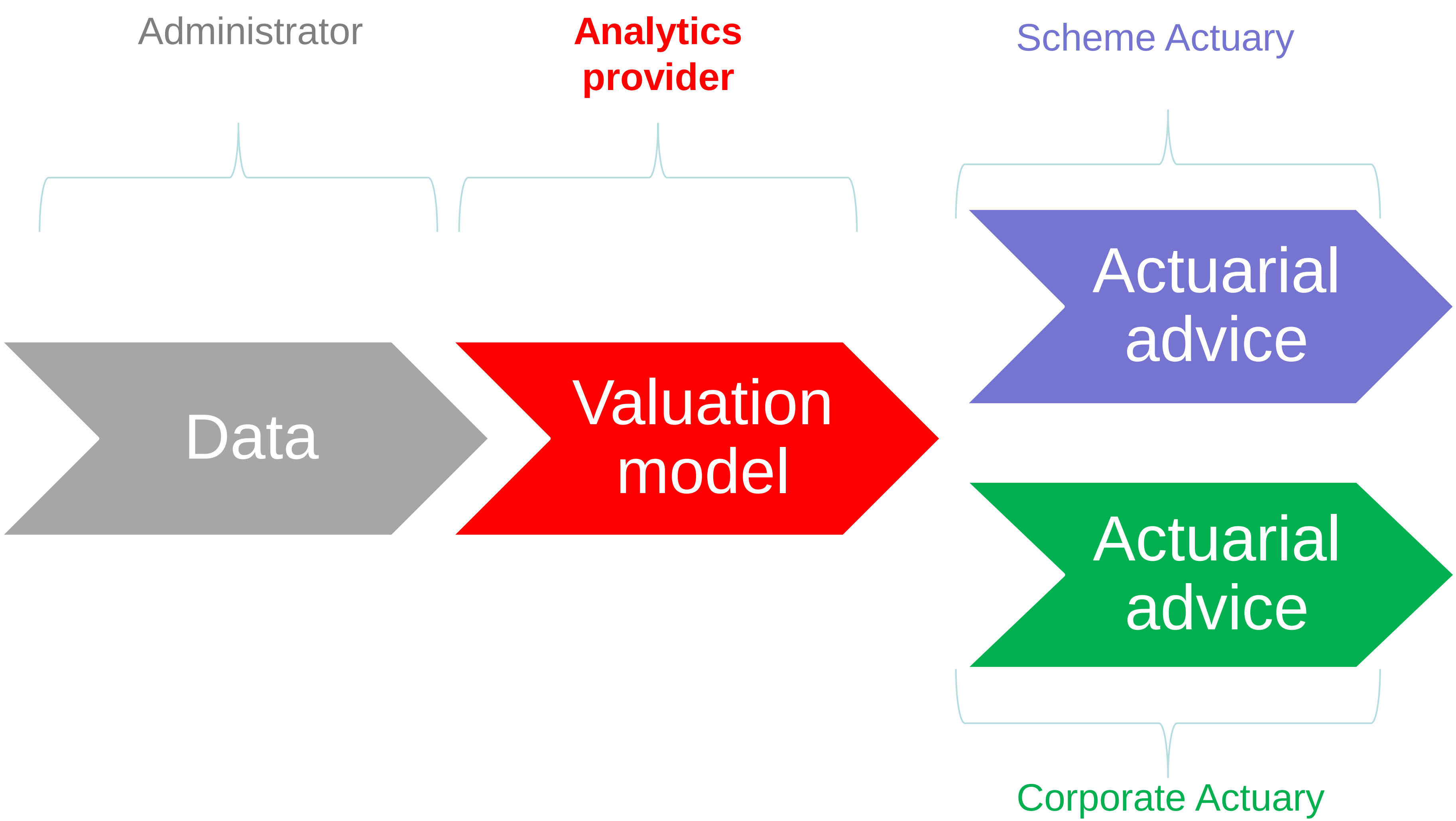
http://frc.org.uk/Our-Work/Codes-Standards/Actuarial-Policy/Technical-Actuarial-Standards.aspx

Inefficiencies under the traditional model

- Duplication of effort
  - Inefficient allocation of resources across the pensions industry - too many consultancies building valuation systems for their sole use
  - The Insurance and Accounting industries have shown benefits of 3rd party systems
- Models not as transparent, or shared as effectively as they could be
  - Consultancies can be reluctant to share their calculations
  - Consultancies might charge for third party access
- Systems development and technology not a core expertise of many actuarial consultancies
  - Firms often weighed down with legacy systems - old technology, expensive to maintain, difficult to evolve
  - As a result consultancies can be slow to innovate
- Lack of ‘straight through’ processing
  - ‘Clunky’ interface to administration systems – valuation process often slow and painful
- Lack of transparency over costs
  - Systems costs often ‘absorbed’ into an overall actuarial valuation fee
  - Pricing of additional runs, ‘what if?’ scenarios, etc, not always transparent

Are Plans getting a poor deal from the traditional model?

Alternative ‘unbundled’ model



Why might Pension Plans want to 'unbundle'

- More flexibility for Plans to work with multiple actuarial advisors
  - separate Corporate and Trustee advisors can work from a single analytics platform (shared model) on a level footing using independent assumptions
  - more scope to work with boutique or specialist advisors (might otherwise be difficult)
  - more leverage from negotiating separate fees for systems and for advice (easier to change advisors)

- Ad hoc projects
  - LDI managers, Insurers and Buyout providers can also access the model to rapidly support their services and proposals

- Plan sponsor
  - Internal teams can also access the model (eg Corporate, Treasury)

- Service levels
  - Plans can hold the analytics provider to account for quality of service and value for money

Would an unbundled model be more effective?