

[Address redacted]

Attn Derek Cribb/Grahame Stott  
(chair of management board)

## **VALUATION OF EMBEDDED GUARANTEES**

Dear Mr Cribb,

Thank you for your letter of 20 December 2018. As before, we are writing for EUMAEUS, a project dedicated to improving transparency in the accounting and valuation of UK firms.

We welcome your agreement that ‘that transparency and objectivity are central to how we can contribute in debates of this sort’, i.e. valuation of embedded guarantees. We also welcome your publishing responses to the PRA consultation, details of the Equity Release Mortgages research programme etc. on your website.

However, your letter also states that

In order to provide objectivity, we have also ensured that the work of the research programme receives robust peer review and is overseen by the three ARC directors, none of whom have any direct involvement in the equity release market.

This statement consists of two claims, namely (i) that you have ensured that the work of the research programme was overseen by the three ARC directors, and (ii) that you have ensured that the programme received ‘robust peer review’.

Taking the first claim first, we wrote to Professor Johnny Li (chair of the ERM research review) on 4 March 2019, asking about the nature and extent of the peer review carried out on the Tunaru paper. Johnny wrote back (5 March) saying that Sarah Mathieson (Head of Research and Knowledge, IFOA) was collecting and organizing our questions, and forwarding them to relevant parties for answers. ‘She will get back to you when the answers are ready’. We have had no reply, despite some gentle chasing (the last being 4 July, copied to Ms. Mathieson). There is an unfortunate tension between your commitment to transparency and objectivity and the fact that our queries have still not received any concrete answers.

Taking the second claim of robust peer review, we have found no evidence of any such review. That is not to say there wasn’t any such review, but rather that, despite all our enquiries, we have yet to find any evidence of it. By ‘robust peer review’, we mean a review process that is set independently of the lead researcher by someone in charge of the project’s governance, is carried out by his peers and is accountable after the fact, and would involve referee reports by established experts from other institutions. ‘Robust peer review’ would

never involve, say, the lead researcher organising his or her own peer review, for the obvious reason that the lead researcher could not be expected to be independent of himself. We know that the lead researcher, Professor Tunaru, organised a workshop in January, for he says so in his report,<sup>1</sup> but this review fails the test of independence. We also know that the ERM review committee discussed the report before publication, but by their own admission, they were not experts, let alone established experts, on the subject.<sup>2</sup>

We also note the minutes of an IFoA council meeting held on 13 February where Council members asked about what had been learned from ‘these events’, i.e. the ERM research project.<sup>3</sup> Members were told that ‘the [IFoA] Board had been left concerned that the IFoA had been many months too late in becoming involved in the matter’. After those minutes were released, we emailed Ronnie Bowie (Actuarial Research Centre chair) about when the IFoA did become involved, but he did not reply. If the date of involvement was after your letter of December 20 2018, then that would contradict your statement that adequate governance was already in place at the time you wrote to us. If before, as we presume, then the concerns expressed by the IFoA board do not sit well with the reassuring tone of your letter.

Could you please reply with answers to our questions about the nature of the oversight provided by the three ARC directors, about the robustness of the peer review process, as promised by Professor Li, and could you also confirm the date the IFoA became involved ‘many months too late’?

Also, given that the Council minutes state that ‘those who viewed the IFoA’s participation objectively would recognise that it was fair and balanced,’ and that ‘Management Board had reviewed the governance processes in relation to the IFoA’s research into Equity Release Mortgages and had found them to be appropriate’, could you, in line with your commitment to transparency and objectivity, please publish details of the governance review that led to these happy conclusions? In particular, we would like to know (a) who carried out the review referred to in the Council’s minutes, and (b) the evidential basis on which they drew their conclusions. We would be delighted to be in a position where we could review the IFoA’s participation objectively and come to the same conclusions as the IFoA’s own internal review, although we cannot entirely rule out the possibility that we might come to a slightly different conclusion.

The underlying assumption must surely be that the governance process be explicit, transparent and publicly signed off by appropriate responsible individuals. So, for example, vague responses, a failure to provide concrete informative answers to straightforward

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<sup>1</sup> ‘UK Equity Release Mortgages: a review of the No Negative Equity Guarantee’, p.3, referring to a workshop at the University of Kent on 28 January 2019.

<sup>2</sup> As Gina Craske at the [launch event on 28 February](#) states, ‘It wasn’t long before the members of the working group realised that *we actually weren’t qualified enough* to really and truly to look at house price projections and modelling and volatilities etc. *We didn’t have really have the qualifications*. So we asked the Institute and Faculty of Actuaries if we could actually have some funding to get some academic research done’.

<sup>3</sup> [https://www.actuaries.org.uk/system/files/field/document/2019\\_02\\_13%20-%20Minutes%2013%20Feb%202019%20Council%20meeting%20-%20Final.pdf](https://www.actuaries.org.uk/system/files/field/document/2019_02_13%20-%20Minutes%2013%20Feb%202019%20Council%20meeting%20-%20Final.pdf)

questions about the assurance process, or the lack of explicit sign off would not constitute assurance in any meaningful sense of the term or obviously be consistent with accountability after the fact. The whole point is that the IFoA/ARC must demonstrate its quality assurance, as opposed to asking that interested outside parties take their word for it when they tell us that the assurance process was done correctly but won't give out any concrete details.

After all, if the quality assurance is good, then there is no good reason to withhold the evidence that leads to that conclusion. Otherwise, the IFoA/ARC leave themselves open to the criticism that there is no actual assurance, no transparency and no accountability.

Faithfully

Dean Buckner/Kevin Dowd