ASSOCIATION OF
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To **Director**
Board for Actuarial Standards

From: Phil Simpson
Chairman, ACA Life Insurance Committee

ACA Response to BAS Consultation Paper on Insurance

The Association of Consulting Actuaries (ACA) welcomes the opportunity to make a written submission on the above consultation.

ACA members act as advisers to friendly societies, life insurance companies and other companies involved in the insurance sector, such as investment banks and Private Equity houses, both in the UK and overseas. Association members act as Head of the Actuarial Function, With Profits Actuary, Reviewing Actuary and/or peer reviewers to many UK life insurers and friendly societies. Members of the Association are all qualified actuaries and are subject to the Code of Professional Conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial.

The ACA is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies.

The ACA's responses to the questions in the *Insurance* consultation paper are as follows:

1. *Respondents are asked to comment on the advantages and disadvantages of a single insurance TAS compared with separate TASs for long-term insurance and general insurance, with particular reference to the needs of the users of actuarial information (paragraphs 1.22 to 1.30).*

   The range of insurance work is in practice a continuum between long term and short term business rather than the clear division enshrined in legislation. Consequently a single TAS is preferable to two, or more, TASs. A single TAS

whilst potentially more complicated to use is consistent with the unified thrust of supervision (e.g. the FSA Prudential Sourcebook and Solvency II). In addition a single high level TAS will require less regular amending than current guidance which involves detailed changes as regulations change.

2. *Will the proposed purpose of the insurance TAS that is set out in paragraph 2.12 help to ensure that users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility?*

   The purpose of the TAS as outlined in 2.12 will help the advice to have the stated qualities for users. However, often the context in which the actuarial advice is put and other commentary around the actuarial advice can be of material aid to users of the actuarial information. The TAS should not be too prescriptive to limit the inclusion of additional, often not directly actuarial, information that may benefit users of the actuarial advice.

3. *Do respondents agree that the areas of work listed in paragraph 4.73 should be within the scope of the insurance TAS?*

   Yes.

   For Embedded Value work it should be clearly and unambiguously defined which areas of work are subject to the insurance TAS and which areas are subject to the forthcoming TAS on actuarial information for financial statements.

4. *Do respondents agree that the areas of work listed in paragraph 4.74 should be within the scope of TASs on accounting or business rearrangements, as well as possibly within the scope of the insurance TAS?*

   Yes, but see answer 3 above for embedded value and answer 6 below on the role of the independent expert.

5. *Do respondents agree that the areas of work listed in paragraph 4.75 should not be within the scope of the insurance TAS?*

   Yes.

6. *Should the areas of work listed in paragraph 4.76 be within the scope of the insurance TAS? Respondents are asked to consider the degree of reliance that users should be able to place on the actuarial information.*

Two areas of work discussed in 4.76 often make use of consulting actuaries; mergers and acquisitions; and interdependent expert work. These are discussed further below.

Whilst recognising that parties advised by consulting actuaries in mergers and acquisition work rely substantially on the expertise of their advisers the reality of such work is that it is often driven by very tight deadlines. We would wish any requirements in the TAS on actuarial work produced in mergers and acquisition work to reflect the commercial nature of such assignments and not to be unduly prescriptive, particularly in circumstances where deadlines have not allowed full and detailed analysis to be carried out. Typically in these circumstances the users of the actuarial advice are sophisticated individuals and firms who will have instructed their actuarial advisers on the degree and scope of the work required for a particular assignment. We do not believe that this is an area where "one size fits all" guidance is appropriate.

For transfers of insurance business under Part VII of FSMA the independent expert is not required to be an actuary and often for non-life insurance transfers is not an actuary. When the independent expert is an actuary he is often a consulting actuary. We agree with the general principle that actuarial work done for such a transfer (either by the independent expert or other actuaries involved in the transfer) should fall under the insurance (and possibly other) TAS. However, we would not wish to see the requirements places upon an actuary acting as independent expert be unduly different to those of a non actuary performing the same role. The general requirements for an independent expert are laid out in the FSA handbook SUP 18 (Transfers of Business) and we would not expect the TAS to add material extra requirements beyond these.

We also note that there appear to be some words missing at the end of 4.68 regarding independent expert work and reliances.

7. *Is there any other work which is not mentioned above that should be within the scope of the insurance TAS? (section 4)?*

No

8. *Do respondents have any comments on the proposals concerning data that are presented in section 5, especially those in paragraphs 5.18 and 5.20?*

   The data proposals are appropriate for analysis where considerable time is available to ensure the quality of the data, for example the dataset used for a year end prudential valuation. However, for other circumstances particularly where there may be considerable time pressure to produce indicative results, such as some mergers and acquisition work, the proposals may not be achievable. The insurance TAS should recognise the different circumstances that the data may be used for. Any actuarial report using less than ideal data would need to be appropriately caveated.

9. *Respondents are asked for their views on the actions, if any, that should be required to mitigate the effects of poor data, and in particular their views on the incorporation of margins in assumptions, and any effects that this or any other action might have on the transparency of assumptions and comprehensibility of the resulting actuarial information (paragraphs to 5.23).*

   The addition of margins to allow for poor data can be a useful tool for dealing with data shortcomings so long as the additional margins are explicitly stated. However, the direction and quantum of the required margin, for example for prudence, may vary depending upon circumstances. For example whether the additional prudent margin for lapses should be positive or negative would depend upon the nature of the product and the circumstances of the investigation. Consequently if additional margins are allowed the insurance TAS should require the actuary to undertake sufficient investigations to satisfy himself that the margins are appropriate both in direction and quantum.

10. *Are there any other data issues which respondents believe should be covered by principles in the insurance TAS? (section 5)?*

    No.

11. *Do respondents have any comments on the proposals concerning assumptions that are presented in section 6, especially those in paragraphs 6.13, 6.16, 6.20, 6.22, 6.24, 6.39, 6.47, 6.57, 6.60, 6.68 and 6.79?*

    No

12. *Do respondents have any views on whether the insurance TAS should include principles addressing:*
    a) *the allowance that should be made for cycle effects in the selection of assumptions? (paragraph 6.17)*
    b) *assumptions concerning latent claims? (paragraphs 6.61 to 6.63)*
    c) *prudential margins in assumptions used to determine insurance liabilities? (paragraphs 6.71 to 6.73)*
    d) *the communication of limitations and uncertainties in the modelling of co-dependencies? (paragraphs 6.75 to 6.77)*

    No

13. *Are respondents aware of any assumption sets used in actuarial work in insurance that cannot be linked to an underlying model? (paragraph 6.21)*

    No

14. *Respondents are asked for their views on whether a standard comparator rate for discount rates would assist users' understanding, and if so whether a low risk rate should be used. (paragraphs 6.25 to 6.33)*

    Whilst a comparator may be useful and a low risk (or risk free) rate would seem an appropriate comparator. However we would question whether users will gain understanding from this presentation or whether the extra information would be confusing to many users and add unnecessary length to actuarial reports.

15. *Respondents are asked for their views on the practicality of the principle concerning morbidity assumptions proposed in paragraph 6.49, and in particular whether there are any types of health insurance where its application would require disproportionate work to be performed. They are asked to explain how the use of simpler models would support the achievement of the Reliability Objective.*

    For many types of health business the principle in 6.49 is appropriate and it is also consistent with the likely requirements of solvency II. There are some simple and old style health or sickness products where approaches such as the Manchester Unity approach may not be inappropriate. Where these products are written by small firms the costs of switching to the more sophisticated approaches suggested may not be appropriate to the scale of the in force business.

16. *Are there any other principles on the selection of assumptions which respondents believe should be in the insurance TAS? (section 6)*

No

17. *Do respondents have any comments on the proposals concerning models and calculations that are presented in section 7, especially those in paragraphs 7.10, 7.18 and 7.23?*

No

18. *Do respondents have any views on whether the insurance TAS should include principles addressing the treatment of:*
    a) *earned and unearned business? (paragraphs 7.24 to 7.26)*
    b) *large claims? (paragraphs 7. 27 to 7.29)*
    c) *currency issues? (paragraphs 7.30 to 7.32)*

No

19. *Are there any other principles on the selection of models and calculations which respondents believe should be in the insurance TAS? (section 7)*

No

20. *Do respondents have any comments on the proposals concerning reporting that are presented in section 8, especially those in paragraphs 8.10 and 8.19?*

No

21. *Do respondents have any views on whether the insurance TAS should include principles addressing:*
    a) *the contents of the With-Profits Actuary's report to policyholders? (paragraphs 8.20 to 8.21)*
    b) *the information that might be useful to the management of insurers in judging the fairness of surrender value scales? (paragraphs 8.22 to 8.24)*

No

22. *Are there any other principles on reporting which respondents believe should be in the insurance TAS? (section 8)*

    No

23. *Do respondents believe that the insurance TAS should provide guidance on the interpretation of regulations affecting insurers or more detailed rules on the selection of assumptions and methods in order to comply with regulations? They should support their arguments by explaining how guidance or more detailed rules would assist the achievement of our Reliability Objective (paragraph 9.2).*

    If the insurance TAS does not provide guidance on the interpretation of regulations then we would look to others, including the actuarial profession, to provide such guidance. Actuaries have found this detailed guidance useful in interpreting difficult and ambiguous area of regulation, in particular.

24. *Do respondents have any comments on the proposed transitional arrangements from the adopted GNs to TASs described in section 9?*

    No

25. *Do respondents have any views on whether matters which could be construed as technical or ethical such as those mentioned in paragraphs 9.39 and 9.44 should be included in the insurance TAS?*

    No

We hope you find the above helpful.

Kind regards
Phil Simpson
Chairman
ACA Life Committee

20.11.09