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15 December 2008

The Director
Board for Actuarial Standards
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Dear Sirs

Response to Consultation Document - Generic Data Standard

The Association of Consulting Actuaries (ACA) welcomes the opportunity to respond to the Monitoring and Scrutiny discussion paper issued by the Financial Reporting Council (FRC) in May 2008. Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes.

Members of the Association are all qualified actuaries, subject to the code of professional conduct of the Faculty and Institute of Actuaries. The FRC is responsible for the independent oversight of the UK Actuarial Profession and the setting of actuarial technical standards. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of defined benefit pension schemes.

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

We must first congratulate the BAS on the challenge to writing this and other Generic Standard papers within the Framework for Technical Actuarial Standards. The challenge is not so much in creating fresh ground but more at putting onto paper what the majority of actuaries have been practising throughout their professional careers. Indeed this familiarity with the principles could lead to the reader merely dismissing the subject as common sense, a false conclusion in our opinion.

We hope you fund our answers to your questions helpful. For ease of your reference we have included these as an appendix to this letter.

If you have any queries or wish clarification on any aspect of our submission please do not hesitate to contact us.

Yours faithfully

Phil Wadsworth MA FFA
Chairman
Consulting Practice Committee
Association of Consulting Actuaries

Appendix - Responses to the questions

1. *Do respondents agree with the proposed purpose and scope of the generic data standard as set out in section 2?*

   We agree that the scope set out in paragraph 2.7 correctly addresses the issues, namely to look at the process whereby data is selected, checked and made fit for purpose. The addressing of inadequate, incomplete or incorrect data must be correctly directed to those responsible for maintaining such data sources and the setting of minimum standards of quality for such records. In the pensions area it is recognised that the Pensions Regulator has just undertaken a consultation on these aspects and is working with industry bodies to address the poorer aspects, particularly in regard to legacy data.

   Paragraph 2.15 correctly in our opinion addresses the situation where both the data holder and the actuary are within the same organisation. Indeed there should be no higher obligation on the actuary providing the actuarial information where the data is provided from within the same organisation than another organisation or indeed by a competitor.

   Paragraph 2.21 addresses the situation where law, regulation etc as well as the BAS standard require to be addressed and we are satisfied that where these are in conflict deviation may be permitted, provided it is fully disclosed.

2. *The BAS sets out a number of overriding principles in section 3.*

   a. *Do respondents agree that it is appropriate for the TAS to include the proposed overriding principles, the associated definitions and the principle that they should be applied with reasoned and justifiable judgement?*

      The principles are set out we understand in paragraphs 3.2, 3.9, 3.10, 3.13, 3.17, 3.19 and 3.21.

      On the question as to whether the principles should be included we agree that their inclusion is necessary, otherwise without some framework it is less easy for the provider of the actuarial information to check that he has addressed the necessary aspects. Indeed in undertaking a peer review of the work in this area the reviewer would undoubtedly wish to check these aspects in determining compliance with the standard. Second in looking at compliance with the standard one has to measure against the fundamental principle as to whether "the decisions of users of the resulting actuarial information will be affected". Therefore judgement is inevitably required. Whilst the reasoning behind the judgements may be documented as an internal record within the working papers, we are not convinced that <u>every</u> occurrence should be the subject of a full disclosure to the user, without request and therefore support the BAS's stance on this matter.

b. *Do respondents have any views on whether any issues specific to processing data arise in respect of the interests of beneficiaries, or of public interest, and on how such issues might affect the proposed overriding consideration for users' needs?*

   The preparers of actuarial information must address the user's needs and the advisers cannot and must not be allowed to be influenced by the needs of other parties.

   Nevertheless it is incumbent upon the actuary to advise fully and in doing to address the implications on other parties and in particular the customers or beneficiaries. This should extend to the advice as to what needs to be communicated to customers and beneficiaries and in particular that advices are not misleading.

c. *Do respondents believe that it would be desirable for BAS standards to require documentation for the reasoning supporting judgements on how to apply the principles?*

   As indicated in our response to 2a we have no issues with documentation of the reasons supporting judgements in this area. Indeed for historic reference and to prove compliance with the standard we would encourage such. However, whether that documentation should be external to the user should be left to the judgement of the actuary, who will need to look at the materiality as well as the practicalities of so doing.

3. *Principles relating to the data process are set out in section 4.*

   a. *Do respondents have any views on the proposed principles relating to the data process?*

      These principles are set out in 4.5, 4.6, 4.18, 4.20, 4.24, 4.30 and 4.32.

      In setting out the data requests under 4.5 and 4.6 the gathering of the data can be broken down in 2 steps. The first step is to obtain "data" from the data holder (administrator) and second to extract the data from this "dump" to execute this process. One therefore finds in the pensions area and particularly in regard to smaller schemes (where typically data is held within the same organisation) actuaries tend to request a dump of all the data from which they extract a limited and lesser subset of data. In regard to this standard we believe that data requests relate to the latter aspects rather than the former. It may additionally be correct for the BAS to address Data Protection Act issues within the standard since actuaries requesting data whether internally or externally would tend to request more than is absolutely necessary. This could involve the extraction of personally sensitive data which is not necessary for the purposes of providing the actuarial information.

The principles in this section we repeat for elaboration of our next point

a. A list of data requirements should be drawn up to satisfy the user needs and scope of the work, prior to any investigation of sources of that data: the data requirements should take into account materiality and proportionality.

b. Data requirements and sources of data should be assessed every time actuarial information is required.

c. When required data is unavailable or materially inadequate to meet user needs within the scope of the work, investigations should be made into additional sources, proxies and sampling methods that might be used to supplement or substitute for the data.

d. If it has been concluded that required data is unavailable or inadequate and that satisfactory additional sources or proxies cannot be found, this conclusion should be reported to the user commissioning the work.

e. A set of data checks should be constructed and performed in order to determine whether or not, taken overall, the data is sufficiently accurate and complete to meet the needs of the user of the actuarial information. The set of checks should also take into account the scope of the work, materiality and proportionality.

f. To the extent that the data is found to be inaccurate or incomplete, the feasibility of compensating for this by a set of adjustments to the data should be investigated. Taken overall, these adjustments should ensure the resulting actuarial information is sufficiently accurate and complete to meet the needs of the user, within the scope of the work, taking into account materiality and proportionality.

g. If required data is inaccurate or incomplete and satisfactory adjustments cannot be found, as many steps of the data process as are appropriate should be repeated.

In this ordering d) appears premature and surely this point should not be communicated to the user until the full magnitude of the issues have been gauged. g) seems tautological in that we believe c) and f) correctly cover the avenues available. We therefore believe the principles should be shortened (by one) and reordered as a), b), c), e), f), d).

b. *Do respondents agree that overall data quality measures are unsuitable for inclusion in BAS standards, at least for the foreseeable future?*

As the providers of actuarial information are not responsible for the maintenance of the data generally and furthermore as the measures are very subjective we believe that the BAS standard is not the place to cover these aspects.

4. *Section 5 discusses matters concerned with estimates and uncertainty.*

   a. *Do respondents have any views on the proposed principle relating to margins in respect of data inadequacy?*

      We believe the appropriate method of dealing with inaccurate, incomplete and missing data is via the mechanisms set out in section 4 of the consultation document, namely to consider other sources of data and appropriate adjustments. This is quite distinct from margins to compensate for these aspects. If the matter is too subjective, is fully disclosed (and agreed) with the user and fully discussed then incorporation of a margin may be appropriate. That would however to our mind be part of the overall prudence of the basis rather than purely a data feature.

   b. *Do respondents have any views on suitable methods of expressing any uncertainties about the accuracy or completeness of the data and, in particular, on whether they should be expressed in a similar way to which other sources of risk are expressed?*

      In the context of pensions it is quite difficult to see how data issues could directly be translated into measures of uncertainty akin to those for other assumptions. This is because of the nature of the majority of data inaccuracies. For example let us consider the spouse's pensions for current pensioners in a scheme providing a spouse with a pension of 50% of the member's pension pre commutation. Only two third's of spouse's pensions have been recorded and show an average pension of 60% of the member's pension. This compares with a maximum of 66% if everyone commuted and a minimum of 50% if no-one had commuted. How would an assumption of 60% for the remaining one third be capable of a measure of uncertainty. One could assess the liability if the proportions were 50% and 66% but probability would be no more than a guess? Clearly pragmatism and judgement are called for rather than pure statistical illustrations.

5. *Do respondents have any views on the proposed principle relating to reporting set out in section 6?*

   The document aspects in 6.2 and 6.3 are satisfactory.

Finally, we believe that the standard, whilst almost certainly being only a reflection of best practice, will assist users of actuarial information to gain confidence in the accuracy thereof at least in respect of data aspects.