

Preliminary Consultation Paper Towards a Conceptual Framework

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Director Actuarial Standards



External Observations - Morris

- Weak, ambiguous, partial, incoherent, inconsistent, incomprehensive, outdated standards
- Insular (and polarised) profession
- Failed to provide a clear presentation of the unavoidable risks that accompany most long term projections



External Recommendations - Morris

- Develop conceptual framework
objectives & characteristics of standards
- Communication content
assumptions
methodologies
nature of calculations and exercise of judgement
sensitivity and scenario analysis
characterisation of risk
client risk bearing capacity



Conceptual Framework Objective

- Develop a conceptual framework establishing the principles and concepts that underlie actuarial practice.
- Thereby:
 - provide clear direction on the matters that should be upheld by actuarial practice (judgement),
 - achieve common understanding, intention and approach (consistency)
 - help users understand the nature and limitations of actuarial practice (communication)



BAS Hierarchy for Standards

Concepts and Principles

Techniques and Methodologies

Standards/Rules



FRC Regulatory Principles

- Regulation by an informed market
- Risk based & impact assessed regulation
- Principles, clarity and international consistency
- Consultative
- Importance of professional judgement
- Transparent, accountable & efficient

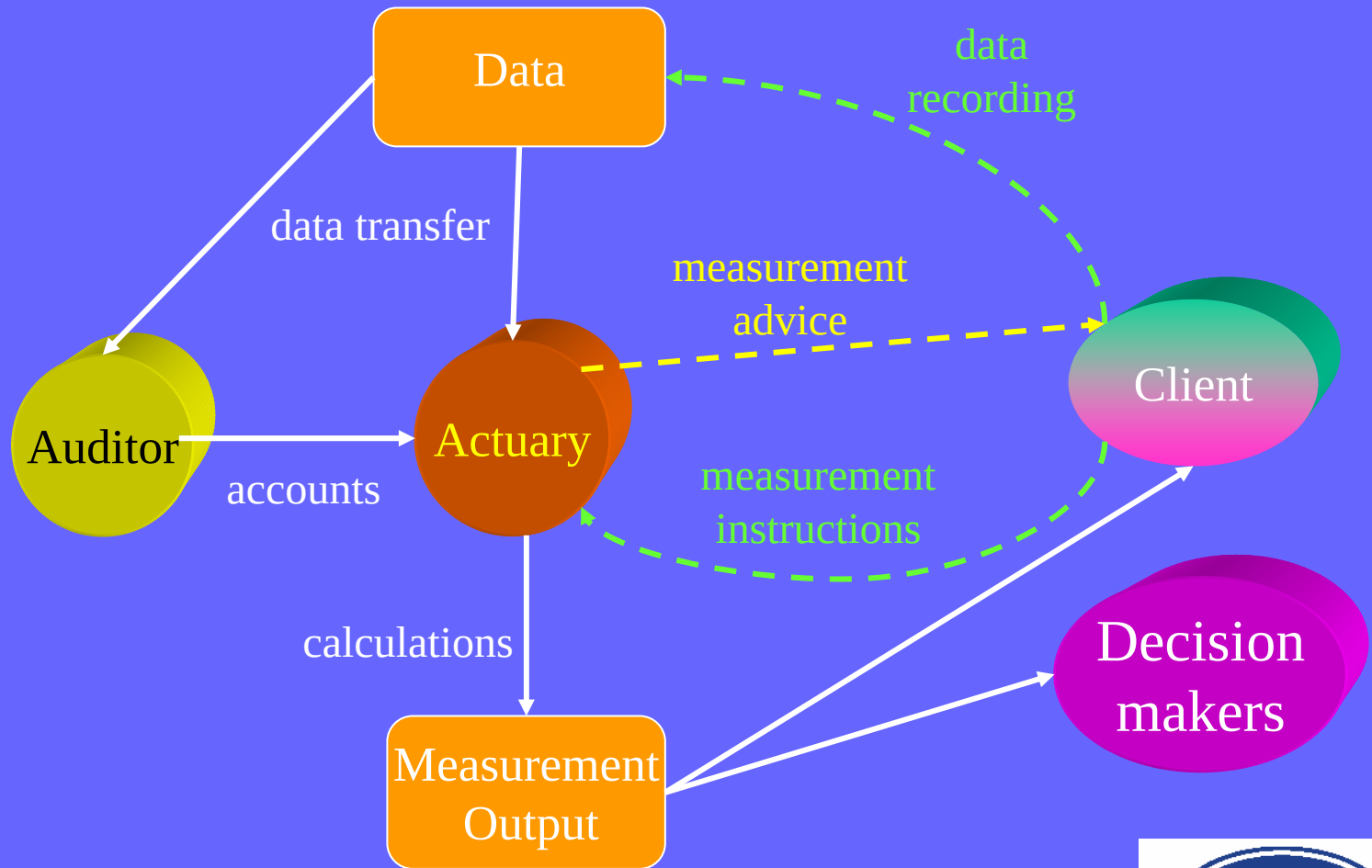


Alternative Structures for Standards

- Output based ASB accounting standards
- Process based APB auditing standards



Actuarial Information Process



Assessment of Alternative Structures

Suitability	Output	Process
Actuaries or entities	Both	Actuaries
Outputs or processes	Both	Both
Multi responsibility processes	Yes	No
Complex processes	Poor	Good
Detailed & standard outputs	Good	Poor
Unique actuarial requirements	?	?
Professional disadvantage	No	Possibly



Approach to Prudence

Measurement should:

- enable informed decision making
- be transparent and neutral

Hence Prudence should be

- an act of decision making (holding capital)
- measurable



SAPT

- Standard actuarial principles and techniques
- Readily distinguishable standard
- Output based test
- Suitable for voluntary or compulsory use

