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BY E-MAIL TO: APT@frc.org.uk

6 September 2022

Dear Sir/Madam

FRC Technical Actuarial Standard 100: General Actuarial Standards: Consultation paper (June 2022)

PricewaterhouseCoopers LLP (PwC) welcomes the opportunity to respond to the above consultation paper (the Consultation).

PwC is one of the largest employers of actuarial staff in the UK, employing over 450. Our actuarial staff are involved in a wide variety of sectors and roles, including the more traditional areas of insurance (life and non-life) and pensions consulting, as well as wider fields such as banking, risk consulting, and commercial and government consulting. We have actuarial staff who support our Audit practice in the audit of insurance and banking clients, as well as auditing pension liabilities and, as a result, we have a large number of users of technical actuarial work.

Whilst our full submission is covered in the appendix to this letter, there are a number of key points we draw out from our feedback, as follows:

- In our view, Application Statements provide helpful information on regulatory expectations and market best practice. However, the wording of TAS 100 “General Provisions” paragraph 1.7 effectively turns Application Statements into mandatory requirements with the same standing as the Principles and Provisions, therefore moving away from a principles-based approach to TAS 100. This is contrary to the FRC’s stated intentions as highlighted in paragraph 2.7 of the consultation: *“The FRC proposes to retain the principles-based approach to TAS 100. Further, the FRC concluded that no significant changes are required to the existing set of high-level principles.”* We therefore view that the current more condensed form of the regulatory TAS 100 standard (setting out the Principles) should be retained.
- Furthermore, through the issuance of Application Statements, Guidance notes, Examples and Scenarios, compliance with TAS 100 would become much more burdensome than suggested in the FRC Impact Assessment due to the volume of information that needs to be applied by all practitioners.
- As stated in our previous response to the ‘FRC Post Implementation Review Technical Actuarial Standards (TASs): Call for feedback’ (7 May 2021), we welcome clarification in the form of non-exhaustive lists and aide memoires. In our view the Application Statements (provided no justification is required for deviations) contain certain clarifications that we welcome, such as in relation to risk identification. Furthermore, the clarification of ‘intended users’ is important in highlighting that technical actuarial work could have multiple users, even if this was not originally intended. However, in our full submission, in response to Questions 13 to 18, we set out specific areas where the Application Statements will result in a number of difficulties unless they are revised.

We also note the following key points that we have considered in making our submission:

- Overall, in our view the principles-based content of the TASs has supported the preparation of high quality technical actuarial work across the profession. From our perspective, in conjunction with other regulatory guidance and standards, the impact of the TASs has been relatively limited as they have codified what was existing good practice.

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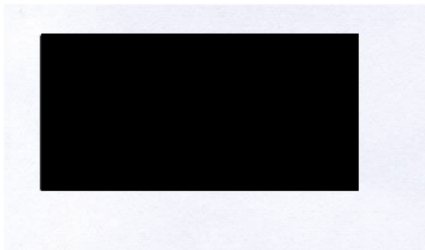
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- The publication of the Government's response to the consultation on strengthening the UK's audit, corporate reporting and corporate governance systems¹ (30 May 2022) sets out the future governance of the actuarial profession. In particular, it includes the move to a statutory legally binding basis for the TASs. In our view, there is a risk that making the TASs more easily enforceable from a legal perspective may result in a move away from principles to more prescriptive standards. We consider the proposals for incorporation of Application Statements in TAS 100 is a step in this direction. The principles-based nature of the TASs is important in allowing the actuary to use professional judgement in applying those principles to a wide variety of situations. We consider it important to maintain the current principles-based approach.
- Actuaries apply their skills to a very diverse range of problems, and in a growing list of industries. The objective of providing appropriate and relevant guidance to all actuaries operating across the spectrum of actuarial work is an ambitious one, but one that we believe the high-level, principles-based nature of the TASs goes a long way to meet. In considering incremental additions for particular circumstances, it will be important to accept that it will never be possible to foresee every eventuality, as the breadth of technical actuarial work continues to expand in each of the various sectors.
- The pending implementation of IFRS 17 in 2023, and the recent developments in the external economic environment (e.g. COVID-19 impacts and the war in Ukraine) are examples of new challenges that actuaries will have to deal with from time to time, and for which the general principles of the TASs should hold true.

Please contact Anthony Coughlan ([REDACTED]), Steven Dicker ([REDACTED]) or myself if you would like to discuss the content of this letter.

Yours faithfully



For and on behalf of PricewaterhouseCoopers LLP

David Wong
Partner



¹ [Restoring trust in audit and corporate governance: government response to consultation on strengthening the UK's audit, corporate reporting and corporate governance systems \(publishing.service.gov.uk\)](#)



Appendix - Response to consultation questions

1. RESPONDENT DETAILS

Question 1: Please provide your name (note: anonymous responses will not be accepted).

David Wong

Question 2: Are you responding as an individual or on behalf of an organisation? If the latter, please specify.

An organisation

Question 3: Name of organisation

PricewaterhouseCoopers LLP

Question 4: Do you wish your response to be kept confidential?

No, we are happy for our response to be published to the FRC website.

Question 5: Please provide your email address.

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2. OVERARCHING CHANGES

Question 6: What are your views on the proposal to incorporate relevant sections of the Framework for TASs document within TAS 100? Further, what are your views on incorporating relevant sections of the Glossary document within TASs?

Whilst we understand the rationale for including the Framework and the relevant sections of the Glossary within TAS 100, we do not have a preference for how the relevant sections of the Glossary document are incorporated.

Question 7: Does the draft FRC guidance provide clarity on the definition of technical actuarial work and geographic scope? If you don't think the guidance provides clarity, please explain why not and suggest how the position might be further clarified.

In our view, the proposed FRC guidance provides limited information in addition to the existing Institute and Faculty of Actuaries ('IFOA') Principles for Technical Actuarial Work Guidance on the application of Technical Actuarial Standard 100, published 15 January 2018.

The guidance in relation to technical actuarial work and geographic scope covers information that, in some cases, will be self-explanatory to practitioners. We note that the scenarios across the various disciplines provide practical and helpful information for understanding what work falls under the scope of TAS 100 (due to their nature of working through a full scenario).

Considering the multi-disciplinary example, it clearly explains that the intended user can be a colleague from another profession and gives helpful guidance on how to proceed in these circumstances. We further note that our interpretation to date has been in line with this example.

However, we note that Example 1 on geographic scope is an area of guidance that introduces ambiguity. This example states that technical actuarial work for the subsidiary of a UK insurance company in relation to the pricing of products sold to UK and non-UK customers falls within the FRC's geographic scope. It is unclear to us whether, if the work is limited to pricing products for non-UK customers, it will also be within scope of the FRC. We expect the rest of the examples on geographic scope will be self-explanatory for practitioners.

Question 8: Does the draft guidance support you in complying with the TASs?

As per Q7 above, in our view, the Examples and Scenarios are helpful to ensure that actuaries comply with the TASs when they are applicable.



Question 9: Our proposal places all the application statements in a separate section within the TAS. An alternative approach would be to place application statements relating to each principle immediately after the relevant principle. Which do you prefer?

We note that the mapping between Principles and Application Statements may not be one-to-one, and therefore our preferred approach would be for each Principle (such as Data) to show the Principle, followed by all Provisions, followed by all Application Statements.

Question 10: What are your views on the proposed change to the compliance requirement?

We welcome that the compliance statement is not being standardised. Further, we consider that the change in text is appropriate, with the exception of the last sentence i.e. *“The evidence demonstrating compliance must be available to the intended user, if requested.”* This sentence could be interpreted widely from providing a checklist against TAS 100 to providing all underlying working papers. The former is not likely to produce the intended results, as it would not provide justification for any deviation from regulation, whereas providing all working papers would not be a proportionate approach. We propose that, if this sentence is included in the revised TAS 100, the FRC considers providing examples on what constitutes acceptable evidence.

Question 11: Does the proposed FRC guidance on how TAS 100 can be applied proportionately assist actuaries in their compliance with TAS 100?

As per Q7, the guidance covers information that we believe will be self-explanatory for practitioners, in some cases. In our view the Examples and Scenarios across the various disciplines provide practical and helpful information for understanding which work falls under the scope of TAS 100.

Question 12: What are your views on the revision in nomenclature of the ‘user’ to ‘intended user’?

We agree that for any technical actuarial work where the TASs are applicable, there is an originally intended user or users, and there may then be further unintended users where the TASs do not apply. Therefore, we welcome this clarification in the wording.



3. CHANGES TO PRINCIPLES AND RELATED APPLICATION STATEMENTS

Question 13: Do you agree the new proposed Risk Identification Principle and associated Application statements?

We welcome the inclusion of a new Principle in relation to risk identification, as this is an important step in any technical actuarial work. However, we note a number of areas where the proposed text might lead to difficulties, as follows:

- **“Practitioners must have regard to all material risks ...”**: Although the Principle caveats these to be the risks one is reasonably expected to know about, a non-actuarial intended user may not appreciate the difference, and hence retrospectively challenge practitioners why **all** risks were not considered in their work. We suggest removing the word “all” from the Principle.
- **Application statements A1.1 / A1.2**: We welcome a list of considerations (which, by definition, would be non-exhaustive) or an aide memoire in areas such as risk identification. However, based on TAS 100 General Provisions paragraph 1.7, having such a list within the Application Statements adds the burden of justifying and documenting against all of these risks, which may not be proportionate to the technical actuarial work undertaken.
- **Application statement A1.4: “... any actions which may or may not be taken ...”**: This statement could lead to a large number of possible outcomes, the implications of which may be virtually impossible, or time consuming, to consider. This appears to contradict the Reliability objective which intends that TASs will be met in a proportionate manner.

Furthermore, we make the following suggestion:

- **Application statement A1.1**: We suggest including persistency as an explicit risk, given it is a material risk for most life insurers.

Question 14: What are your views on the clarification included in the proposed changes to TAS 100 in respect of the exercise of judgement? Further, do you feel that guidance will be helpful?

We view the current Principle to be sufficient, as noted in our previous response to the ‘FRC Post Implementation Review Technical Actuarial Standards (TASs): Call for feedback’ (7th May 2021). However, we note areas where the proposed text could lead to difficulties in future, as follows.

- **P2.3**: In our view this will require future monitoring in certain cases. Whilst this may be a reasonable expectation for certain technical actuarial work, future review may be undertaken by different practitioners, and this is likely to be at significantly different times. Based on the current text, it may be impossible to state compliance with TAS 100 until future monitoring work has taken place. We note that projects undertaken by actuaries working for consultancies are often limited to the original technical actuarial work, with responsibility for the final deliverable and future monitoring handed back to the insurer/pension provider.
- **A2.2**: For certain types of technical actuarial work, such as reserving for a non-life book of business, a large number of judgements are required which may not be material individually, but which are in aggregate. In such cases, we believe it is proportionate to conduct scenario tests which affect multiple judgements and the overall result, rather than doing individual sensitivity testing. We suggest adjusting the text to allow for both types of testing.

We do not believe there is a need for further guidance on the exercise of judgement.



Question 15: What are your views on the proposed changes to the Data Principle and associated Application statements?

In our view, the current Principle and Provisions are a better reflection of how technical actuarial work is undertaken. Bias is prevalent in the data of insurance companies, given that their purpose is to pool the risk of many individuals with differing characteristics. Products sold decades ago will have policyholder data that may be incomplete and inaccurate, and newly launched products, by definition, are unlikely to have sufficient data for it to be credible.

Therefore, we believe that the proposed text leads to areas which may not be possible to comply with, including the following.

- P3.1: There may be instances where effective checks and controls cannot be applied, therefore we suggest amending the provision at the end to include words to the effect of “or flag where these have not been performed and the resulting limitations on the analysis”.
- P3.2: The concept of “future biases” in data is unclear and not defined within TAS 100. In our view it is likely to be impossible to consider all such biases, and in most cases, investigation could not occur as the bias is unknown. Furthermore, it is unclear to us how such an investigation might affect the final conclusions of the work.
- A3.1 - A3.3: We expect there to be a reasonable number of instances where these Application Statements would not be met based on proportionality, given insurance companies sell multiple types of products with different policyholder data likely to underline the assumption setting and reserving processes. Due to TAS 100 General Provisions paragraph 1.7, all of the relevant deviations on the bases of proportionality would need to be justified for each new piece of technical actuarial work introducing further burden on practitioners, as an insurer may have many business lines.
- A3.4: This Application Statement in itself may introduce further biases into the data, when in many cases it may be reasonable to accept the existing bias in the data provided it was justified.

Question 16: Do you agree with the proposed clarifications and additions relating to documenting and testing material assumptions?

The proposed Principle, Provisions and Application Statements in relation to Assumptions (4) and their documentation (P6.1 and A6.2) provides clarification in terms of the key areas that we expect are already understood by practitioners. However, elements of the proposed text lead to areas which may not be possible to comply with, such as:

- P4.1 / A4.2: The concepts of “potential bias” and “unintended bias” in assumptions are unclear and not defined within TAS 100, specifically in terms of how they would be identified in the first place, leading to a risk of significant subjectivity in these statements.
- P4.4: Assumptions are sometimes specified within accounting standards or other existing regulation pertaining to specific technical actuarial work. In the case that the practitioner does not consider the assumption suitable in the context of the technical actuarial work but is required to use it due to the regulation, we would not expect the practitioner or the intended user to require an indicative assessment of the impact of adjusting the assumption.
- A6.2: the text is missing the word “and” i.e. “*commentary on bias in assumptions and any actions taken to remove it*”.



Question 17: Do you agree with the proposed changes to the Modelling Principle and associated Application statements? Further, do you agree that guidance would be helpful?

We note several areas where the proposed text can lead to difficulties in future, as follows.

- P5.3: As per Q15, the concept of “potential future unintended bias” in models is unclear and not defined within TAS 100. In practice it would not be possible to consider all such biases and to find ways in which to improve the model without creating additional bias through the improvements.
- A5.2: In certain cases, a bias in the model may be an appropriate simplification for the intended purpose, therefore easily creating a precedence for divergence from this regulatory expectation, drawing into question its usefulness.

We do not believe there is a need for further guidance on the Modelling Principle.

We also continue to view that the principles of proportionality and materiality are important when applying the Modelling Principle to smaller and less significant models.

Question 18: Do you agree with the proposed clarification of the Documentation Principle? Further, do you agree with the proposal to move all requirements relating to documentation to the Documentation Principle and associated Application Statements, where applicable?

We agree that the new format ensures clarity over all areas that should be documented in relation to technical actuarial work. However, elements of the proposed text can lead to ambiguity which we believe should be considered further, including the following:

- P6.2: As we stated in Q10, we feel that the documentary evidence of any deviations from regulatory expectations is not set out clearly. Therefore, we propose that if this sentence is included in the final TAS 100 document, the FRC should consider providing examples on what constitutes acceptable evidence.
- A6.3: Certain technical actuarial work requires the use of a model to support the final conclusions for a client report. However, the model itself is not part of the final deliverable and is retained by the practitioner. In such cases, there should be a distinction between the documentation for internal purposes (model instructions) and those intended for the final report (governance and checks), which is currently not clear in the TAS wording.

We can understand the rationale for moving all requirements relating to documentation to the Documentation Principle and associated Application Statements, but we do not have a significant preference for how this is done.



Question 19: Do you agree with the proposal to move all requirements relating to communication to the Communications Principle and associated Application Statements, where applicable?

Yes, we believe that ordering Principles to reflect the natural flow of the work is helpful for practitioners, so that consideration can be given to judgements, data, etc as part of the work. Communications tend to occur multiple times throughout technical actuarial work and, in most instances, encompass the whole breadth of the work. Therefore, in our view, it is clearer to cover communication in respect of data and modelling under one Principle. We further note that within PwC, our internal checklist for compliance with all TASs follows this format.

In our view, the Application Statements in relation to the Communications Principle provide a helpful aide-memoire of the areas that should be communicated to the intended users. However, based on TAS 100 General Provisions paragraph 1.7, having such a list within the Application Statements adds the burden of justifying and documenting the communications against all of the areas, which may not be proportionate to the technical actuarial work undertaken.

Question 20: What are your views on the additional clarification provided in the Application Statements?

The Application Statements contain a wealth of useful and pertinent non-exhaustive lists which are helpful aide-memoires in setting out regulatory expectation and market best practice. However, the wording of TAS 100 General Provisions paragraph 1.7 goes on to state that “*Practitioners must have regard to these regulatory expectations; divergence may be acceptable but must be justified.*” In our view, this is effectively turning the Application Statements into mandatory requirements with status equivalent to the Principles and Provisions. This is contrary to the FRC’s stated intentions as highlighted in paragraph 2.7 of the consultation: “*The FRC proposes to retain the principles-based approach to TAS 100. Further, the FRC concluded that no significant changes are required to the existing set of high-level principles.*” We therefore view that the current more condensed form of the regulatory TAS 100 standard (setting out the Principles) should be retained.

In our response to earlier questions, we have indicated a number of areas where the text of certain Application Statements is ambiguous and, as currently drafted, make it difficult or impossible to comply with, whether they are regulation or regulatory expectations.

Question 21: What are your views on the proposed changes to the requirements relating to assumptions set by the intended user or a third party?

The proposed change through Application Statements A4.3 and A7.5 increases the scope of the technical actuarial work and, therefore, places additional burden on the practitioner. In line with Q20, if Application Statements are kept as regulatory expectations rather than regulation then A4.3 provides helpful views on market best practice.

Question 22: What are your views on these proposed amendments to clarify the existing requirements?

We understand the rationale for these proposed amendments, and we expect many practitioners to already be in compliance with them. Specifically for the clarifications to be made to Application Statements, we refer to our response to Q20 for further information.



4. IMPACT ASSESSMENT

Question 23: Do you agree with our impact assessment? Please give reasons for your response

As covered above in Q20, the Application Statements in their current form read as mandatory requirements, therefore expanding the principles considerably and placing additional burden on all practitioners for future technical actuarial work. We believe this burden is significant based on the current Exposure Draft.

Were the Application Statements to remain a regulatory expectation, with no requirement to justify any deviations from them, we agree that the new TAS 100 would lead mostly to a one-off cost to update processes and procedures.

As mentioned in previous questions, there are a number of areas of the Provisions which are regulations that need clarification, otherwise they could lead to a disproportionate amount of work, such as the evidence of compliance that the intended user can request.