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The Director  
Board for Actuarial Standards  
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### **Actuarial Mortality Assumptions: Discussion Paper**

Dear Sir,

We have read with interest the discussion paper on actuarial mortality assumptions and we welcome the opportunity to respond. We appreciate the aim of the Board of Actuarial standards (BAS) is to increase the transparency of the assumptions and to ensure that the issues underlying the mortality assumptions are understood by the decision makers. Whilst we agree with this aim we feel that it would not be in anyone's interest to introduce minimum requirements into the assumptions themselves.

In general we agreed with the views of the discussion paper. The particular areas we would like to respond to are set out below:

#### Appropriate methods of communicating the extent and impact of the inherent uncertainty involved in mortality assumptions (Section 3)

- We felt that the paper was very successful in describing the risks and issues in relation to setting mortality assumptions.
- There are some types of business where although mortality may be uncertain, the impact on the results that are being reported is not large. Therefore any minimum requirements that are set by BAS in the future should not apply to contracts where a change in the mortality assumptions will not change the results significantly. The aim of any reporting should be to focus the attention of the decision makers on those assumptions that matter to that particular block of business.
- For some types of business, particularly annuities, the mortality assumption is not only the most key assumption but also has the highest level of uncertainty. We therefore believe that it is important to find a useful way to present this level of uncertainty if the mortality assumption has a significant impact on the results. Table B5 in appendix B does look a useful way to present uncertainty and agree that presenting uncertainty as a change to the discount rate has the benefit of presenting the information to the decision makers in a way that they are likely to understand.
- We would find it useful to also show the impact of uncertainty on the expectation of life.
- Fancharts are also a useful visual way of showing the variability that may exist in mortality rates and to show the 'funnel of doubt'.

- The most appropriate way of demonstrating the potential impact of differing mortality assumptions will vary by type of contract and reason for reporting. For example the most important impact for a closed life company may be the impact on liabilities but for a life company looking to increase its sales of annuity contracts the most important impact may be on the level of annuity rates. Therefore any standards that are introduced regarding demonstrating levels of uncertainty should not be too prescriptive and should allow the company to choose the most appropriate results to show.

#### Standards for mortality assumptions (Section 4)

- We agree that reporting standards would increase the transparency of the assumptions and that the suggestions set out in paragraphs 4.17 – 4.19 are reasonable
- However anything stronger than this could be too prescriptive and it would be difficult to state a standard that would be reasonable for all types and sizes of company to follow. Therefore we do not think that setting criteria for assumptions or limits on assumptions should be set by BAS as the ultimate choice of the mortality assumptions should be the responsibility of the board of the company.
- We agree that it is desirable to split the discussions on criteria between base mortality assumptions and future changes in mortality assumption

#### Base Mortality (Section 5)

- We do not believe that it would be desirable for a BAS standard to require the use of the most recent published tables. An older table may fit the shape of the underlying population better and although using an age related adjustment to a more recent table would remove this problem, this could introduce further issues. There would be an increased risk of error in calculations and there may be a systems cost in introducing an age related adjustment
- We believe that the standard should outline the dangers (in terms of communication) with using older tables but should not prescribe the use of the latest tables.

#### Future changes in mortality (Section 6)

- It is important to understand what the BAS mean by a 'small' group of policyholders. If a company has a group of policyholders with a large enough set of data then they will be able to investigate past experience and be able to demonstrate that they exhibit different levels of mortality improvement. We appreciate the comments that past experience isn't necessarily a guide to the future and although a low socio-economic group may have demonstrated lower improvements in the past then they may not in the future. However a company should not be discouraged from investigating such factors and looking for models that may predict future mortality improvements successfully.
- One company may have blocks of business that is larger than another company's whole annuity portfolio. We see no reason why this large company shouldn't be allowed to have different future mortality assumptions for each block of business.
- We strongly disagree with any proposals to introduce prescribed mortality assumptions as it is the responsibility of the board to decide on appropriate assumptions, based upon guidance and evidence presented to them. The standard should therefore outline the issues that need to be considered when setting the assumptions to enable the board to make a better informed decision.

Conclusion

Our view is that it is important that any standards that are set by the BAS are not highly prescriptive. Setting any limits on levels of mortality assumptions could remove the need for any investigations into the levels of underlying mortality. There would then be the danger that companies become less aware of any mortality risk they are taking because they would not seek to understand their underlying levels of mortality if they cannot take credit for any refining of their assumptions.

Any future standards should make clear what types of reporting they are applying to. Whilst we appreciate that they may be required for external financial reporting we would not expect to have to apply them on all internal reports (although there may be some internal reports where it would be reasonable to expect them to apply)

We trust you find these comments helpful. If you would like any further clarification on any of the points raised then please do not hesitate to contact us.

Yours Faithfully

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