

## **SCOR Global Life Reinsurance Services UK Limited**

### **Comments on BAS Actuarial Mortality Assumptions Discussion Paper**

I am commenting as an Actuarial Function Holder for a life reinsurer and have consulted my colleagues before producing this response. I shall respond specifically to the invitation to comment below but first wish to comment on the paper as a whole. Context is extremely important. In the absence of standards relating specifically to decrements, our office follows the actuarial control cycle. Analysis is conducted, best estimates agreed, peer reviewed, referred to a board governance committee and then implemented. Experience is monitored and the cycle revolves around continuously. I believe this process to be sound and that the board gain a suitable degree of confidence in the work. I am always wary of the law of unintended consequences and can envisage a board taking comfort from a statement to the effect that the decrements have been produced in compliance with BAS standards when the full control process may be lacking.

It is interesting to bring together much of the wider discussion about mortality in one place and I recognise that the paper is titled as a discussion paper. However, I expected more of the discussion to be about standards, their rationale and their relationship with regulatory and accounting standards. In that context I expected more detail and direction whereas I found the document to be rather high level and vague.

The document does discuss standards which immediately bring to mind the question of what is the end product. Are there to be standards for mortality, critical illness, disability, lapses and other decrements or is this the first step in a more generic standard encompassing all decrements? It is stating the obvious to note that other decrements have a significant financial impact as well and that there is no special, inherently unquantifiable uncertainty compared with other decrements.

In response to the specific questions:

1. The significance of the mortality assumption for a life office will very much depend on the characteristics of that office. For a large diversified life office with significant reinsurance protection in place, the significance would be minor whereas for a monoline insurer with little or no reinsurance the significance would be high. Similarly, a young pension scheme with only active lives and deferred pensioners would find mortality less important than investment returns and withdrawals while a mature scheme with few actives and many pensions in payment will find its finances much more affected.
2. a) The appropriate method very much depends on the context. A paper to the management of a life company could reasonably assume a basic level of knowledge and deal with sensitivities. A paper being given to trustees could not expect that knowledge and must be more forceful

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- with a graphic representation of the range of outcomes and stating probabilities of financial cost exceeding the risk tolerance of the trustees.
- b) In principle I agree that greater clarity results from the separate presentation of the two assumptions but again, context is important. For an ad hoc query needing a quick answer and where a financial impact is sought rather than cash flows then it may well be appropriate to approximate. It is also worth noting that for capital allocation risks will be aggregated and allowance taken for diversification
- c) As mentioned above for a), sensitivities are helpful for conveying this information in technical discussions.
3. a) I'm not really clear on the purpose of this question. For a technical document, the financial cost of changing an assumption will demonstrate its impact. For a presentation of life expectancy to the general public, is there a need for an actuarial standard when such numbers are more frequently disseminated by non actuaries? Life expectancy is not a summary statistic we use in our business.
- b) As above, for a technical document there is not much need for a summary statistic and if it not a technical actuarial paper, a BAS standard is irrelevant.
- c) I have no objection in principle to benchmarks being given by BAS but in practice how detailed would these be? Would there be different benchmarks for the population, for insured lives, for preferred lives, for impaired lives, for use with products such as Income Protection, for purchased life annuities, impaired lives etc. The list is endless. A single benchmark would be useless because mostly a different table would be used. Multiple benchmarks would require much more effort to maintain. The publication of such benchmarks would clearly imply BAS's endorsement of them. Should an actuary use a benchmark table for, let us say, a pension scheme where the mortality turns out to be very different with severe financial implications, would the trustees sue BAS rather than the actuary?
4. a) I find this question strange. What is the purpose of BAS if it is not to create standards? However, as noted above, mortality is but one assumption. A mortality standard must be in the context of standards for decrements as a whole. It would be very strange if an actuary was required to comply with a mortality standard when pricing income protection if there was no standard for the main decrement. Also, the document appears targeted at pensions but the standard needs to apply to all technical actuarial work. As noted above, current practice is to apply a rigorous control cycle and this is to be encouraged rather than focus on an individual decrement which could result in a check box mentality.

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- b) How would reporting standards interact with accounting standards and regulatory standards? Are they anticipated to be used for other forms of report than those published under such standards?
  - c) No.
5. a) This sounds sensible in principle but what if the benchmark tables are updated rarely? Most actuaries working in protection business would modify the tables or create their own using the most recent information available. Would they be in breach of standards for not using an old, published table? As BAS does not produce tables it creates a dependence on bodies outside of their control with possible unintended consequences. Also, for purposes such as surrender values and policy alterations for policies which have been priced on historic tables it remains appropriate to use those tables.
- b) My answer is given above. I struggle to see how this can be made to work in practice and suspect that the consequence may include the unexpected and undesirable.
6. a) Although I do not have any concrete examples it seems intuitive to me that the mortality of people who work in a specific industry could well experience different trends either negative due to, for example, the introduction of carcinogenic material in a manufacturing process whose effects emerge over time or positive due to, for example, a cure being found for a condition which currently afflicts an industry exposed to harmful materials in the past.
- b) Any restriction will risk leaving the profession unprepared for change. Transparency and comprehensibility are essential but should be addressed by reporting standards.
- 7 I accept the point about the difference between risk and uncertainty as discussed in the paper. Nevertheless, the standards will need to find new labels as enterprise risk management should address both issues.

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