

The Director
Board for Actuarial Standards
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

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Dear Sir

Actuarial Standards - Conceptual Framework and Scope and Authority

PwC is pleased to comment further on BAS's proposals for a conceptual framework for actuarial standards and their scope and authority. Our comments reflect the views of actuaries in our pensions, life actuarial and general insurance practices.

General comments

As we have previously said, we support the direction BAS has taken in setting down how it should formulate actuarial standards. However, we continue to have concerns about how, in future, BAS may decide to prescribe limits for actuarial assumptions, notwithstanding the decision to defer a decision in this area. It is an area that could have a great impact on actuaries' work and we suggest BAS's intentions are clarified earlier rather than later.

In general, we think the principles set out in the latest exposure drafts of the Framework and Scope documents will lead to an effective and robust set of actuarial standards, although it is difficult to be confident until we can see at first hand how BAS is applying them, by looking at a number of draft standards. We are aware of the recent exposure draft of a standard for reporting actuarial information but our comments take no account of that at this stage. It will be critical for BAS to translate the high-level principles in the conceptual framework into clear explanations for actuaries of "what to do" in actuarial standards. Any lack of clarity or ambiguity will make it difficult to enforce compliance with actuarial standards through the profession's disciplinary procedures.

We are pleased that BAS promises (F73 to F76) to bear in mind the cost of implementing standards, by having regard to proportionality. However, we are concerned that no principle of proportionality seems to have been carried forward into either of the exposure drafts to reinforce this. In our view this is a very important principle and should certainly be addressed, perhaps in Section 2 of the Conceptual Framework.

We highlight that the cross referencing between the draft submitted in November 2007 and this version has not been clear. Therefore, it has been difficult to trace where sections of the original report have moved to in the revised version.

We note that in both the latest BAS exposure draft and the draft produced in November 2007, the issue around ethical standards needs to be made clearer. Under paragraphs 1.5 and 1.6 in the latest BAS exposure draft, the document discusses who is ultimately responsible for setting the ethical standards; however, the document does not detail the name of the ethical standards. We recommend that sufficient cross referencing is added to the framework document to highlight where the ethical standards may be found.

General Insurance (GI)

From a GI perspective, our view is that the document has improved since the November 2007 draft; however, we still have the following comments and questions and would appreciate it if you took these into account.

Whilst we note that there is now more reference to GI work within the framework, in our view it is still insufficient. Given that GI work is governed by these standards and it forms an important part of the market, it is important that examples are provided across all areas, particularly as there are some specific features of GI work which differ from Life Insurance and Pensions work. We have given two examples below where GI has been overlooked but highlight that this is a systematic issue throughout the document.

- Paragraph 3.24, which refers only to a pensions calculation method to meet a given objective;
- Appendix A10, where reference is made to the Financial Management of only life insurance and pensions business.

With respect to the general insurance comments, we would be in favour of having a discussion with your team to assist them in understanding where GI work differs from work in the Life Insurance and Pensions fields.

Specific issues on which BAS invited comments

Internal consistency

This is a principle commonly applied already in much actuarial work and we support its inclusion. One advantage of internal consistency is that it often makes it easier for actuaries to share advice with non-actuarial clients, because it is possible to focus on the outcomes of a piece of work rather than having to stress the effects of the inter-relationship between the underlying assumptions.

Returning to the point above about clarity, actuarial standards will need to express the high-level concept of consistency in terms of what exactly actuaries have to do, in specific circumstances, to ensure they comply with this concept. Statements along the lines of “the actuary must ensure that X is consistent with Y” may not suffice.

However, in formulating standards, it will be important for BAS to recognise that there are areas where it is perfectly acceptable for there to be assumptions that on the face of it appear “inconsistent”. For example, in pension scheme funding, the calculation of the contributions to clear any deficit (under a “recovery plan”) may reflect the returns expected from equities, even though the “technical provisions” (the level of assets targeted by the trustees of the scheme) may not. This is not really a case of inconsistent assumptions; rather consistent assumptions used for subtly different purposes within the same piece of work. Actuarial standards should recognise this distinction. Similar issues arise in pensions accounting work under IAS19 and FRS17.

As referenced in sections 3.29-3.33 of the latest BAS exposure draft, the disclosure of assumptions is likely to be onerous for general insurance actuaries given the number of assumptions associated with the multiple classes of business that general insurance actuaries review. We recommend that

this requirement is considered carefully and that the standards clearly specify what is required in this area.

Proposal to set out scope of generic standards in a schedule

This also seems sensible and should make it easy for actuaries to check on the latest scope of work covered by the generic standards. We support this idea.

Text of exposure drafts

Section 3: Concepts to be Adopted in Technical Actuarial Standards

Limits on assumptions

We continue to be concerned about how BAS may prescribe limits for actuarial assumptions. Whilst we realise that the original consultation was an “early trialling” in this area and that BAS has deferred taking a decision, it is nevertheless a fact that the exposure draft provides BAS with the scope to prescribe limits. Therefore, we suggest a decision in this area should follow soon so that users of actuarial guidance can be clearer about BAS’s intentions.

Section 4: The Scope of Technical Actuarial Standards

Areas of work covered

We are comfortable that BAS standards will apply to “reserved work” and “required work” and in limited circumstances to other work. However, as we mentioned previously, we remain unclear as to what type work would in practice fall within the “required work” category (with the exception of the pre-paid funeral plan example cited by BAS). We also wonder whether any such work might better be regulated by another body.

Geographic scope

We are unclear whether the scope of BAS standards should extend to required work or other non-reserved work carried out by an actuary who is not a member of the UK actuarial profession.

Section 5: The Enforceability of Technical Actuarial Standards

Compliance

We support the way the compliance requirements are phrased, with an over-riding emphasis on compliance but also recognition that departures may be justifiable if they could have no influence on decisions taken by the recipients of the work product (ie are immaterial), or in order to avoid the work being misleading. We suggest that for this approach to be effective, it may be necessary for actuarial standards to define in more detail what is and is not material in specific circumstances.

Working in a team

We continue to be concerned about how it is proposed actuarial standards should apply to actuaries working in a multi-disciplinary team, especially for those working within consultancies. The issue is addressed (in 5.11) by making the need to comply with actuarial standards dependent upon whether the actuary has the authority to determine the content of the work product. BAS states that the existence or otherwise of authority to determine the content of the work product is a “matter of fact”. However, our experience, in a firm in which actuaries often work in multi-disciplinary teams, is that is frequently not the case and there is no clear demarcation of responsibility in this way. Consequently we are concerned that some standards may be unenforceable.

Within GI work, an example of this is the provision of audit support within an audit firm where it is not clear how control of output is determined. This could leave actuaries exposed. We would recommend that more clarity is provided around any work of this nature than is currently evident in the exposure draft.

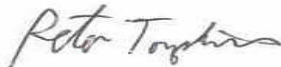
Appendices: Matters relating to the Concepts of Valuation and Planning

Discounting

A4 - A9 and paragraph 3.39 are examples of assertions that are incorrect for GI practice. This needs to be addressed in what is supposed to be a generic actuarial framework. For example, general insurance reserving work relates mainly to undiscounted amounts, although the discounted figures can still be relevant in some situations as they provide more information. In addition, for risk and capital work within the GI arena, clients have great interest in actual cash-flows which are a key element of the actuarial analysis.

We hope our comments will be helpful as you work towards finalising the exposure drafts. Please contact me if you would like to discuss any of them in more detail.

Yours faithfully



Peter Tompkins