

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

FAO: Louise Pryor, Director

16 July 2010

Dear Louise

Exposure Draft on Insurance TAS

Deloitte is pleased to respond with comments on your exposure draft for the Insurance TAS (“ED”) and, as always, we welcome your consultative approach. We think that the proposed commencement date of 1 April 2011 is reasonable, subject to the Insurance TAS being published sufficiently in advance of this date. We set out below our key comments on the exposure draft.

I. Scope

a) Work for internal decision making

We reiterate our view expressed in response to the Consultation Paper in November 2009 that the scope of the Insurance TAS should be limited to (i) areas of public reliance and (ii) reporting of a regulatory nature. We do not agree that actuarial information intended for the purposes of internal decision making should be within the scope of the Insurance TAS. If it is, users of internal actuarial work who wish to reduce costs may instruct the actuary responsible for the work to depart from TAS (as is permitted under paragraph 24 of the Scope & Authority of Technical Standards). Another consequence could be for other professionals, not caught by this standard, to undertake work that can be performed by a non actuary, even if an actuary might be the most appropriate person to do that work. Opting out from TAS as a matter of routine would bring the standards into disrepute, so in our view, a better alternative would be to limit the scope as above, whilst recognising that firms could opt-in as good practice to areas outside this scope.

b) Pricing work

For similar reasons to those highlighted above (internal decision making), we think it is not appropriate to include product pricing in the scope of the Insurance TAS without further field work being performed by BAS on how firms will apply it in practice. In any case, we think the difficulties presented by its introduction mean that this is a particular area where BAS should delay its inclusion within scope. However, we comment below in paragraph II(b) on how the definition of materiality could be amended to assist with the inclusion of aspects of pricing work within the scope of the Insurance TAS.

Actuarial involvement in pricing work takes on many and varied forms. There are many instances where it would be either impractical or inappropriate to apply the Insurance TAS to pricing work. For example, certain types of business are typically priced on a transactional (often case-by-case) basis, involving rapid turn-around and advice on a “best-efforts” basis under the circumstances. Pricing can involve the repeated running of models (often many times a day) whose inputs, other than policy data, are directly related to market conditions at a particular date. Whilst we acknowledge issues that involve model or parameter uncertainty should be addressed by firms following a periodic recalibration or amendment to such a model, applying the TAS each time a model is run or a contract cost is calculated (a plausible interpretation of the current wording) appears disproportionate and of little or no benefit. We note too that there are many instances, especially in non-life, where non actuaries perform an equivalent function (see our comments below under “*The application of TAS-I to multidisciplinary teams*”) – your proposals would disadvantage actuaries in this context.

c) **Audit work**

We think it is unclear whether you intend the work carried out in support of an audit to be within scope of the Insurance TAS or not. We do not think it should be. We understand from paragraph 18(b) of the “Scope and Authority of Technical Standards” document (version 3, November 2009) that the BAS does not intend to set standards on monitoring the work of another actuary, thereby excluding the Reviewing Actuary’s work. However, paragraph 2.27 and C.1.5 of this ED suggests otherwise when actuaries are supporting an auditor in reviewing the work of another actuary, on the basis that this relates to the financial statements of a firm.

Often, work in support of an audit will involve the review of the work of another actuary or insurance professional, and will not result in the Reviewing Actuary preparing his / her own estimates. In some circumstances, the auditor will only require a high-level review of the quality of the actuarial information supplied to them. In such circumstances we think it will not always be easy for the actuary to comply with the Insurance TAS and the generic TASs. Nevertheless, we can see that some of the disciplines proposed in the TASs are helpful to Reviewing Actuaries. We therefore suggest that review work of this nature be explicitly excluded from scope unless the person commissioning the review (such as the auditor) requires otherwise.

It is worth noting that the standards for audit work are already covered by ISAs (UK and Ireland) and other auditing pronouncements issued by the Auditing Practices Board (APB) and should not be covered by two separate standards. It should be remembered that PN20 requires the auditor to agree the scope of work with the Reviewing Actuary and this, *inter alia*, is likely to include the format of reporting. We think that the Insurance TAS should deal with the **preparation** of actuarial information only and this distinction should clearly be made.

As pointed out in a previous response, this would leave a gap in the standards for the role of Reviewing Actuary used by the auditor of a life insurer. If the BAS feels it is part of its remit to establish such standards, then this should be clearly separated from the guidance on actuarial work that is performed in connection with financial statements, which is quite different from the Reviewing Actuary’s work agreed between him / her and the auditors. We suggest you also liaise with the APB to ensure that its Practice Notes 20 and 24 are aligned with this material.

II. *Definitions*

a) *Actuarial information / work*

Throughout the ED, “actuarial work” is used without being explicitly defined. Similarly, the question of what constitutes “actuarial information” is of utmost importance in applying the standards, and should be clarified.

The intuitive definition of actuarial work is “work performed by an actuary” and that could easily lead to misinterpretation of scope in particular cases. For example, consider the case of an actuary working in a senior management roles such as CEO or CFO of a financial institution. That individual would have responsibility for financial statements in their entirety. We do not think the intention of the Insurance TAS is to include within scope the entirety of a set of company’s financial statements as a result of the professional qualifications of certain senior members of management, but it could be interpreted this way as currently worded. We recommend that “actuarial work” is defined appropriately to overcome this.

We welcome the inclusion in Part C of more detailed descriptions of the work which will be within the scope of the Insurance TAS. Although we acknowledge your comment that it is not possible to cover all possible aspects of actuarial work, we would recommend that some examples or descriptions are given of “non-actuarial work”.

In our view, many aspects of business planning work are not “actuarial work”. For example, estimating future new business, future expenses or total projected overhead costs would not normally be described as “actuarial”, even though actuaries might on occasion be involved in such work. We would therefore recommend that business planning be removed from scope or defined more clearly to exclude those aspects which are “non-actuarial” by nature. As currently drafted, we feel the wording places an excessive burden on an actuary with overall responsibility for business plans compared to a non-actuary performing this work.

b) Materiality

We believe that the inclusion of various areas of actuarial work within the scope of the Insurance TAS highlights difficulties with interpreting materiality, as is currently defined and used throughout the TASs. Although it is right to exclude from the scope work that will not affect decisions, we do not think that the opposite can be assumed to be true. Many business decisions are minor in nature and a simple cost benefit analysis would suggest that they do not merit the overlay of actuarial standards. We think that this (and the time pressures and other relevant circumstances) is part of what is intended by the phrase “and the context in which the work is performed and reported” in the materiality definition, however we do not think this is stated in a sufficiently transparent fashion. We therefore suggest that the definition of materiality is amended throughout the TASs to the following:

*Matters are material if they could, individually or collectively, influence the decisions to be taken by users of the related actuarial information. Assessing materiality is a matter of reasonable judgement which requires consideration of the users and the context in which the work is performed and reported. **The context of the work includes the significance of the decision relative to the risk profile or framework of the affected insurance entity.***

We believe that this “two hurdles” approach will assist many actuaries, particularly those in management roles, in situations where they are called upon to advise under time pressure or are otherwise required to exercise their judgement. We believe it will enable the TASs to align more effectively with the forthcoming Solvency II regime. Furthermore, it should also help rather than disrupt well-run firms that have an established approach to risk management.

c) Exercise of discretion

We note that “discretion” is not defined despite being used in principles which could have significant impact on our work. “Discretion” is potentially broad in scope and, without being clearly defined, could lead to unintended consequences. We think the BAS intends it to mean discretion in deciding the amounts of policy benefits granted to policyholders. Since “actuarial work” is also not defined, the meaning of C.1.22 as drafted is obscure. For example, a decision to move to new office premises could be regarded as an exercise of discretion in the normal use of the word. We would therefore recommend that the text provides a definition of “discretion” and possibly examples of what might be or not be included within the definition.

III. Reports concerning the exercise of discretion

A consequence of including “work concerning the exercise of discretion by an insurer” within the scope, is that aggregate reports sent to policyholders (e.g. benefit projections) should comply with the TASs. The extensive disclosures required by the TASs around assumptions and uncertainty underlying the figures in such reports would not be understood by the average policyholder. Furthermore, such detailed and technical disclosure would be in conflict with the objectives of the Insurance TAS as set out in Part A, one of which is to ensure that “information provided to policyholders is relevant, comprehensible and sufficient for its purpose”. It would also be in conflict with guidelines from the FSA that communications to policyholders should be clear, simple and



understandable. We would therefore welcome further clarification within the TASs concerning the extent and detail of disclosures which should be included within policyholder communication.

IV. The application of TAS-I to multidisciplinary teams

The Insurance TAS purports to apply equally to actuarial work performed by actuaries and non-actuaries; it is not clear how, in practice, the standards could be enforced upon, and what action could be taken against, non-actuaries who are not compliant with TAS. We would welcome further clarification on how the standards would apply to a) actuaries reporting to non-actuaries and b) non-actuaries reporting to actuaries. We believe it is essential that any standard such as this does not unwittingly reduce the quality of work, and thus potentially put the end customer at risk, by introducing an unlevel playing field between actuaries and non actuaries.

We hope that you will find our response useful in developing an appropriate standard on insurance. If you would like to discuss further any of the points we have raised, please contact David Murray (Life Insurance, 020 7303 3372), Alex Marcuson (General Insurance, 020 7303 3378) or Alex Arterton (Audit, 020 7303 5996).

Yours faithfully

Deloitte LLP