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Louise Pryor, Director  
Board for Actuarial Standards  
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Dear Ms Pryor

**Exposure Draft: Insurance**

The ICAEW is pleased to respond to your request for comments on *Exposure Draft: Insurance*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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## ICAEW REPRESENTATION

Exposure Draft: Insurance

**Memorandum of comment submitted in July 2010 by the ICAEW, in response to the Board for Actuarial Standards consultation paper Exposure Draft: Insurance published in April 2010**

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## **INTRODUCTION**

1. The ICAEW welcomes the opportunity to comment on the consultation paper *Exposure Draft: Insurance* published by the Board for Actuarial Standards (the Board).

## **WHO WE ARE**

2. The ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. We ensure these skills are constantly developed, recognised and valued.
4. The ICAEW's Financial Services Faculty was established in 2007 to become a world class centre for thought leadership on issues and challenges facing the financial services industry, acting in the public interest. It draws together professionals from across the financial services industry and from the 25,000 members specialising in the sector. This includes those working for regulated firms, in professional service firms, intermediaries and regulators.

## **MAJOR POINTS**

5. Overall, we think that the exposure draft captures good practice, and that it is helpful for preparers and auditors as well as actuaries to have clear guidance around the actuary's role at a time of significant regulatory change.

## **RESPONSES TO SPECIFIC QUESTIONS**

**Q1: Views on the proposed commencement date of the Insurance TAS (paragraphs 4.10 to 4.12).**

6. It is useful that the proposed commencement date, April 2011, avoids this December year end. We note that it would mean that any remedial work would need to be undertaken in the near future and that the implementation time is shorter than that typically given for new financial reporting standards. To give practitioners more time to make any changes, should these be necessary, the Board may wish to consider making the commencement date 1<sup>st</sup> May 2011 so that late returns are not inadvertently included within the scope of the Insurance Technical Actuarial Standard (TAS).

**Q2: Views on the impact assessment and the effects that the introduction of the Insurance TAS is likely to have on actuarial information (see section 6).**

7. We note that the Board does not expect costs to go up, as actuaries are expected to respond in a proportionate manner. However, it is likely that this guidance will become a benchmark against which an actuary's conduct will be assessed in the event of any disciplinary or legal action. We would envisage that, as the text of the draft TAS indicates, clear explanations of the limitations of the work performed by actuaries would support a proportionate approach.

**Q3: Views on the text of the exposure draft as a means of implementing the proposals in the document.**

8. The role of actuaries undertaking review work differs from their role in producing reports, and the Board should consider placing more emphasis on this in the TAS. For example, when the actuary in an audit team reviews work prepared by a company's actuary, the auditing actuary is covered by audit requirements in addition to those of the TAS. We note your response to the work of an auditor in section 2.27. Notwithstanding this, we consider the Board's standards should form part of the audit guidance, so that only one set of requirements is applied to actuarial work performed as part of an audit. Not least, this would help to avoid the problem with two sets of requirements that may otherwise diverge over time. We recognise that both the actuarial and auditing guidance aim to maintain good quality work, but think that there will be cases where the manner in which they seek to do this differs, creating problems for practitioners. An alternative approach would be to scope out work done as part of an external audit, so that the scope of the audit work is determined solely in relation to audit requirements. The Board should consider whether there are other areas where actuaries undertake review work which may have implications for how the TAS should apply to them.
9. We note that the scope of the exposure draft TAS extends beyond information on which the public relies, to include planning and pricing, where mixed teams perform the work. We appreciate that you have considered feedback on these issues in developing the draft, and that the Board's *Scope & Authority of Technical Actuarial Standards* (paragraphs 25-28) sets out that actuaries working with non-actuaries apply the TAS where they have responsibility. Defining responsibility and what constitutes 'actuarial work' in practice in these areas may not always be straight forward. Practitioners will apply their judgement in these circumstances but the Board should accept that this will mean that sometimes decisions will be reached that do not accord with those it would have preferred. We are not clear how the TAS would apply to work on regulatory returns, and would find clarification of this useful.
10. We are concerned that the materiality definition given at B.2.1 is narrower than that used in the context of financial statements, where materiality is in relation to the financial statements as a whole. In the insurance exposure draft, materiality is in relation to the actuarial information only, which is a smaller sub-set of the information in the financial statements. This measure of materiality may increase the amount of work required and have cost implications. It may also lead to reliance being placed on the information at a lower level of materiality than for which it was intended. The fact that the standard is to be applied in a proportionate manner may mitigate this, subject to how actuaries think the TAS would be interpreted in the event of disciplinary proceedings. Our preference would be to define materiality within the overall context in which the actuarial information is provided to users. For example, in a set of financial statements, by reference to its materiality in those financial statements.

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