

L&G Response to BAS Insurance Exposure Draft

This response reflects the views of a number of actuaries working in life insurance. Other responses may be received from other areas within L&G.

In what follows the numbering relates to the section of the document or exposure draft:

4.10 to 4.12. We do not have any issues with the proposed implementation date, providing that the content of the final TAS remains similar to that in this exposure draft.

Section 6. We believe that there will be some additional ongoing cost in relation to TAS compliance. This cost will mainly relate to the need to be able to evidence compliance.

A.1.2. The wording of the last bullet implies that by following this standard work will always be performed without mistakes. Whilst compliance with good standards of control will reduce mistakes they can never be entirely eliminated and there is always a small risk of material mistakes remaining.

B.2.1. The definition of insurance transformation in this section does not seem to agree with that in section C.1.21.

B.2.1. It would be helpful if a definition of “Proportionate” was included in this section.

C.1. We understand that actuarial reporting and processes that are in the process of being developed do not fall within the scope of this TAS until they are complete, even though some decisions may be made during the development phase by the eventual users based on the work done to date. It would be helpful if this standard clarified this.

C.1.16. We have some concerns that application of some of the prescriptive requirements in section D are not appropriate in the context of business planning. For example planning work is likely to require a greater level of simplification, judgement, ad-hoc modelling and assumption approximations in order to achieve a particular desired scenario which would not sit comfortably with some parts of the current exposure draft.

C.1.17. We have some concerns about any information provided by an actuary falling into the scope of MI under this section. This could create an overhead when dealing with ad-hoc requests for information that arise, in particular time spent disclosing information to the requestor of that information that does not get presented to the final users. One approach would be to try and clarify that this only applies to formal MI where there is a report produced for the users of the information and where the actuary has responsibility for production of, or input into, that final report or any supporting information.

D.2.9. We do not agree with this principle. We can see no reason why the standard should prohibit compensating for a shortcoming in one assumption by adjusting another assumption, providing the limitations and consequences of this approach are

adequately communicated to users and the implications have been tested and understood. For example it may be necessary to take this approach due to limitations within a model.

D2.13. A similar point to 2.9 in regards being unduly restrictive. There may be model limitations that necessitate either compensatory adjustments or perhaps high level adjustments to base assumptions, such as an age rating. Communication regarding limitations and consequences would then apply as per D.2.9.

D4.1. to D4.2. It is unclear how the term neutral estimate is to be interpreted in the light of other guidance that already exists around best estimate. For example EEV principles generally preclude the allowance for future expense improvements even if management's neither optimistic nor pessimistic view is that a certain level of improvement will be realised. Similarly if neutral, essentially require a 50:50 likelihood then it is unclear where probabilistic allowance for asymmetries or extreme events fits with this definition.

D.4.1b). This sentence does not read well.

D.4.4. We feel that the requirements of this section are potentially onerous. The effect of this section is to require that where neutral estimates form the basis of projection it will also be necessary to carry out a number of alternate projections. This work is significant and will not always be relevant or add any benefit to the users. In a financial reporting context such information may be provided periodically rather than every time results are provided.

D4.4. We do not believe there are any current or proposed work which require a neutral measure as defined in this TAS - see the comment on D.4.1 to D.4.2 above.

D.4.9. It would be helpful if this section clarified from whom the information should be sought. It would also be helpful if the TAS outlined what approach should be adopted where the information is not forthcoming.

General comments:

It would be useful to understand more precisely the scope of this TAS in relation to asset-liability and other investment related work. Although mentioned in the discussion points, the Insurance TAS is not clear on the scope of this work that is included. It would be helpful if the "Significant considerations" included something on the extent that investment advice is intended to be covered by the TAS. As promised we will provide some more detailed comment on this and examples of asset-liability work that we believe should not be covered (to follow).

It would be good if the "Significant considerations" contains a discussion to what extent an actuary in a non-actuarial role (Managing Director, Finance Director, Product Director) is perceived as providing actuarial information when they are consulted on issues that would fall in scope of the TAS.