

Dear Sir/Madam

I am writing this letter in response to the consultation on the Board of Actuarial Standards' ("BAS") Insurance Technical Actuarial Standard or "Insurance TAS". I have prepared this letter in as a qualified actuary within the Institute of Actuaries and not on behalf of Travelers Syndicate Management.

I strongly believe that the proposed scope of the TAS's is significantly beyond what is necessary to achieve the aims of the BAS. In particular I am concerned that certain areas of the Insurance TAS bring very small pieces of work into scope (e.g. pricing individual risks), as well as areas that I believe are truly multi-disciplinary (e.g. business planning) or involve little actuarial judgement (e.g. management information).

My key point revolves around the distinction between Required or Reserved work, and other duties performed by an actuary within a commercial organisation. In such non-regulated areas, it is largely the organisation itself that sets the standards of documentation required from the actuarial staff, being the user of the work produced. If additional controls or documentation is required, that organisation will certainly request such information. My worry is that the standards suggested impose the creation of work and documentation that is not wanted and hence will not be valued.

I understand that the proportionality measure is important in the application of the Standards. However, I would argue that such subjective measures are open to many interpretations and if enforcement is required, such subjectivities would, in practice, not allow significant deviation from requiring application in all cases.

I also believe that the Generic TAS's are a very good guide to the principles underlying good actuarial work, but I don't believe that they should be mandated in all situations, as implied by the current guidance.

I will now address a few more explicit aspects of the proposed standards in their current form:

Management information – The vast majority of the management information we are involved in is non-actuarial in nature. It can be as mundane as collating various figures calculated by the finance function, and performing very high-level checks before submitting through pre-defined forms. I consider the need to document the underlying models and data sources in such instances to be grossly onerous, particularly as such forms are used throughout the organisation.

Definition of user – in many cases it seems that the user within the scope of the TAS is deemed to be at director level. In many smaller pricing jobs, the user is a class underwriter who is responsible for a very small proportion of the overall book. Even though it is important that this user is also fully aware of the basis for any actuarial input, the same level of documentation and validation is not appropriate for this case as for verifying the adequacy of overall reserves for an entity, for example.

Expert users – in the above example I would also expect the underwriter to have a very good grasp of the business being priced, and hence require significantly less background information relating to the pricing process as a non-executive director reviewing the output of a technical calculation. Currently I believe that this differentiation is not fully reflected in the TAS's.

Level of materiality – this is already incorporated in the TAS's, however I believe that this should be amended in a similar way to that described above: I would suggest that if these standards are to apply for the areas suggested, that the level of materiality reflect the entity as a whole, rather than the person receiving the information. In this way small individual risks would be excluded, whereas pricing models or reviews of the reserves of an entire company

would be in scope. However, I still believe that MI and pricing should be excluded from the scope of the Standards.

In a number of the cases outlined above, there will be areas where a more robust set of documentation and validation is required, such as fundamental assessment of the ULRs booked within company business plans, estimations of reinsurance recoveries and setting up rating models for underwriters to apply themselves. In such cases I expect that the actuarial employees will provide explanations and/or documentation allowing such exhibits to be fully understood by the users. However I still consider these to be outside the scope of the full Standards, and would rely on professional judgement as to the level of documentation necessary based on the users and purpose such items are to be used for.

To illustrate the seriousness of the Standards as published, I would like to point out the following requirements:

1. Perform and document checks on the model, its specification, implementation and realisation (TAS M)
2. Grouped data should be identified (TAS M)
3. Report how the models meet the users' needs (TAS M)
4. Rationale for the methods and measures used (TAS R)
5. Report the nature and significance of all material risks to the entity relating to the work carried out (TAS R)
6. Report the nature, objective and measures and methods for each material calculation (TAS R)
7. Nature and timing of future cashflows (TAS R)
8. Comparison with similar exercises (TAS R)

Examples:

Pricing a single risk (being approximately \$10k)

- Only data provided by the broker is available
- Request for an estimated premium within two hours
- Data consists of a set of current incurred data for each of the last five underwriting years
- Slip is available, but no past conditions are known

I would suggest that such exercises that the above requirements would seem overly complex for the underwriter, as both the underwriter and actuary are aware of the inadequacy of the data, and hence the approximate nature of any such estimate.

I would also suggest that applying the same methodology for similar risks at different times during the year (item 8) would not be valuable. Comparison with the previous years results of the same risk is understandable, but relating the results of completely different risks seems nonsensical.

Planning assumptions

- Underwriters provide their estimates of premium income and rate change for use in the annual business plan.
- Actuarial review their assumptions and query areas that look out of line with expectations.
- Underwriters continue to own the numbers, and they get passed to actuarial to be used in the setting of ULRs

Here, I would expect an informal discussion to understand the rationale used by the underwriter, together with indications of why such questions have been raised. Little if any documentation would be expected to be produced, other than that required for the calculation of the ULRs.

Filling in MI forms relating to actual large loss experience compared to plan

- Sum actual losses reported to date
- Compare this amount to the planned losses expected in the same period
- Produce a difference between these amounts
- Upload this for every class of business

In this instance I expect that any documentation at all would be considered excessive

I urge you to reconsider including the large amount of work we do on a regular basis relating to relatively minor elements of risk to the entities we work for under the TAS system, and leave individual actuaries and their employers to determine the conditions or information requirements involved, albeit with the TAS guidance as a guide to the potential level of work product available if necessary.

Regards

Neil Bruce, FIA