

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

19 July 2010

Dear Sirs

Exposure Draft: Insurance TAS

PricewaterhouseCoopers LLP ("PwC") is pleased to have the opportunity to comment on the Insurance TAS Exposure Draft, which follows on from the original consultation paper. We fully support The Board for Actuarial Standards ("BAS") in its goal to raise standards across the profession. There is much in the Insurance Technical Actuarial Standard to commend and we are generally supportive of the principles that bring a wider range of actuarial work into the scope of the standards. However there are a number of areas where we continue to have some concerns over the drafting of the standard and how it would apply in practice.

Specific details of these areas are provided in the appendix to this letter, however we summarise the main aspects below.

1. BAS should be clear as to how its standards interact with the existing or proposed standards of others to which actuaries in certain circumstances have to adhere due to the nature of the work that they are conducting. In particular, we comment that there is the potential for overlap and inconsistency in relation to actuaries supporting auditors, Solvency II and Part VII transfers.
2. There is a need for significantly greater clarity as to what is and what is not covered by the standard. Much of section C's clarifying paragraphs are in the terms of "this includes...." without any ring fencing of what it does not include. There is also some inconsistency in what appears to be the intention of BAS in the conceptual framework and scope and authority documents as compared to the Insurance TAS itself. Discussions with the wider actuarial profession have also indicated that some readers believe that the Conceptual Framework which is referenced in the Scope and Authority document overrides the Insurance TAS whilst others consider the opposite to be true.
3. Actuaries, their employers and commissioners of work continue to be unsure as to what is considered to be material and proportionate and hence what will be acceptable. In the absence of clear guidance provided by BAS as the standard setter, and/or the Institute of Actuaries which is responsible for compliance, users and commissioners are likely to either take a costly and inappropriate belt and braces approach (beyond that intended by BAS), ignore the standards or de-scope their actuaries work from the standards. All of these are at risk of damaging the standard in its aim to raise standards of actuarial work.



The Appendix to this letter provides our specific responses to the questions in section 7.1 of your invitation to comment together with greater explanation of the points that we raise above.

Please contact me or Esmee Robinson on 020 7212 3342 if you would like to discuss this further.

Yours faithfully,

Brian Purves
Partner

APPENDIX: Comments on the Insurance Technical Actuarial Standard Exposure Draft

PwC has pleasure in responding to the specific questions you have asked in section 7 (Invitation to comment) of the Exposure Draft.

1. The proposed commencement date of the Insurance TAS

Although most of the year end 2010 reporting will be completed by 30 March 2010, Group Capital Adequacy returns do not need to be submitted until 30 April 2011 and so year end 2010 data and models will be brought into the requirements of the Generic TAS when the majority of other year end reporting will have been outside. We therefore suggest the implementation date of Insurance TAS is set at 1 May 2011 to ensure that organisations have completed their year end 2010 reporting.

2. BAS' impact assessment and the effects that the introduction of the Insurance TAS is likely to have on actuarial information

PwC, along with a number of other companies whose views we are aware of, has concerns that the level of additional documentation has been underestimated by BAS and that there will be a resulting increase, not just in the physical effort to meet the new standards, but also in the length of elapsed time that the additional work will take. This could be particularly significant in some areas of actuarial work, such as M&A, Pricing and Reinsurance, where there is a need for quick and speedy responses. BAS acknowledges (in 6.11 of the analysis of responses) that the standards are likely to require more work and extend timescales in these situations. However, the commercial reality is that the time available is generally squeezed and extensions are not possible.

BAS has commented (in sections 4.4 to 4.8 of the analysis of responses) that the proportionality and materiality clauses will provide a level of reasonableness in how practitioners will meet the requirements of the Standards. However, it also acknowledges that these are a matter of judgement and there is as yet unproven case material on which to base those judgements.

Part of the concern, which was also raised by a number of contributors at the TAS Awareness Session in London on 21 June, relates to the uncertainty surrounding the policing and disciplining of the Standards. BAS has stated that it is only responsible for the setting of Standards and that the policing is left to others, primarily the Actuarial Profession. The Actuaries Code, in particular paragraph 4.4, states:

“Members will promptly report any matter which appears to constitute misconduct or a material breach of the legal, regulatory or professional requirements including Actuarial Profession Standards and Technical Actuarial Standards issued by the Board for Actuarial Standards, for consideration under the relevant disciplinary schemes. To the extent that the consent of a third party is required for this purpose in order to disclose information, members must take all reasonable steps to obtain such consent.”

The requirements to report are not the same as whistle blowing under various areas of legislation, where there is some element of legal protection for the whistle blower, and it is possible that the person reporting will find themselves subject to legal action.

This situation has created a vacuum in that there is no clear guidance on what would constitute acceptable, or unacceptable, interpretation. In our view, BAS should provide more clarity on how the Standards should be applied and the Actuarial Profession should provide guidance on how an individual should determine whether a particular matter would constitute misconduct or, more importantly, a material breach.

PwC feels that this additional guidance needs to be in place by the time that the Insurance TAS is implemented. If implementation of the additional guidance is at a later stage, damage to the standard in its aim to raise the quality of actuarial work will already have been done. This is because in the absence of such guidance, practitioners are likely to err on the side of caution and carry out additional unnecessary work, beyond that intended by BAS, to provide a further blanket of reassurance and protection. This will increase cost and elapsed times and provide no real benefit to users, and could undermine the BAS Standards. Alternatively Actuaries may ignore the standards or users may de-scope their actuaries' work from the standards. Given our support for the underlying objectives, this is something that PwC would see as unfortunate.

3. The text of the exposure draft as a means of implementing the proposals in the exposure draft

PwC has a number of comments relating to the exposure draft, primarily around the Scope covered in section C.

Section C: Scope

There are a number of areas where BAS is suggesting work should be brought within scope of the Insurance TAS, and therefore the Generic TASs will also apply. In general, PwC is supportive of bringing a wider range of actuarial work into scope.

Existing or proposed standards

BAS needs to ensure that it is very clear as to how its standards interact with the existing **or proposed standards of others to which actuaries in certain circumstances have to adhere due** to the nature of the work that they are conducting. PwC has particular concerns about the possibilities of:

- Boiler plating of standards, with practitioners having to meet the higher of two sets of standards, where each standard has higher requirement thresholds in different elements;
- The risk of double jeopardy where there are conflicts in the requirements of the different standards which means that it is impossible to meet all requirements.

In these areas, PwC believes that the public interest will be best served if the BAS standards did not apply in areas where appropriate standards already exist. Examples of these would be in relation to some elements of actuarial audit support, Solvency II and Part VII transfers. Each of these is discussed in more detail below. However BAS should also ensure that there are no other areas where there is overlap with other areas of regulatory requirement or standard setting and, where it identifies such overlap, should de-scope it from the Insurance TAS.

- Audit Support (C1.12 of the Exposure Draft)

Actuaries provide support to auditors generally through one of two ways:

- Actuaries working for audit organisations are part of the Audit Engagement Team, where their work is directly subject to the International Standards of Auditing, which sets out the standards internal experts, such as Actuaries, have to meet.
- Actuaries working for themselves or third party organisations who provide actuarial review and advice to an auditing organisation. Such Actuaries are not subject to the International Standards of Auditing.

PwC would welcome the additional rigour that would apply under these Standards to actuaries who are not part of the Audit Engagement Team, but we recommend that the work of actuaries already subject to the International Standards of Auditing is out of scope of the BAS Standards.

- Solvency II (C1.11 of the Exposure Draft)

Solvency II will be subject to a number of regulations requiring actuaries to meet certain standards, e.g. review of data quality, the 6 tests of meeting Internal Model approval, in areas where BAS has set standards (Data and Modelling). In addition, Groupe Consultatif has been commissioned to develop standards and guidance in respect of the level 3 work.

The requirements of Solvency II are applicable across the whole of the EU and are setting a high benchmark, with similar, but not identical, requirements to those within the Standards set by BAS. This will require UK practitioners to take account of two (slightly) differing sets of requirements. PwC therefore recommends that Solvency II is explicitly excluded from the scope of the BAS Standards.

- Part VII Transfers (C1.18 and C1.19 of the Exposure Draft)

As per the Solvency II comments, there is already a significant amount of guidance relating to Part VII transfers, contained within the Financial Services and Markets Act (2000), Part VII, which relates to the Control of Business Transfers and hence the work of Independent Experts in this field before the details of the transfer go to court. Therefore, PwC recommends that the Part VII transfer work is explicitly excluded from the scope of the BAS Standards.

Scope inclusion

In discussions with the profession, BAS has indicated that it would like to have greater clarity of what is in and what is out of scope. We recognise that providing a categorical statement is difficult given the variable nature of actuarial work within the insurance industry. However, there is a need for significantly greater clarity as to what is and what is not covered by the standard than is the case in the current exposure draft.

There are many clarifying paragraphs within section C that indicate that “this includes.....”. However, it is as important to make it clear as to what the paragraph is not intended to include. Some examples of areas of ambiguity are set out below:

- Where work is carried out by an Actuary as part of their role which contains elements of actuarial work, but the role itself does not need to be filled by an Actuary. For example, an Actuary may be the Chief Risk Officer of an organisation. Does the work he/she carries out in that role fall within the scope of the Standards, even though the role could be performed by a non-actuarial professional doing exactly the same tasks.
- Where work is carried out by a non Actuary, but is under the supervision of an Actuary, e.g. in the calculation of Management Information required by the Board, does that work come under the remit of the Standards.
- More clarity is required on the activities that would be considered to fall within the remit of the Actuary in respect of pricing, M&A work or business planning and management information, for example. Much of this work may be carried out by other professionals without an actuarial background. In addition, the timescales over which much of this work is required mean that the users may not agree with the required level of detail and documentation particularly when the users are already experienced in the relevant area. It is important that BAS tests the applicability and relevance of the requirements of the standard against what users actually believe is necessary.

- The Conceptual Framework (section 4.4) indicates that the Standards will only apply to original work and not to work that is monitored. It is not clear how that should be interpreted, for example actuarial audit support generally involves reviewing the work of another Actuary in the organisation being audited. If that work involves building spreadsheets to validate the results from the audited organisation, it would fall under the scope. However it is not clear if actuarial audit support would fall under the scope of these Standards if the only activity is reviewing what other Actuaries have done. This has particularly led to some confusion, with discussions with the wider actuarial profession indicating that some readers believe that the Conceptual Framework which is referenced in the Scope and Authority document overrides the Insurance TAS whilst others consider the opposite to be true. Greater clarity on what is meant by Monitoring in the Conceptual Framework would be helpful.

Section D: General Principles

D3.2 Changes in measures, methods or assumptions

We support the intention of D3.1 but do not believe that D3.2 provides appropriate explanation. We believe that the principal points are that:

- aggregate reports should explain the rationale for any changes in the **results** between two similar exercises. A change in the results could be driven by a number of causes, including:
 - a change in the selected methodology;
 - a restatement of the historical data;
 - additional data (emerging experience) due to the passage of time;
 - a change in the selected assumptions/parameters arising directly from data changes and/or emerging experience;
 - a change in the basis of selecting assumptions/parameters (eg a change in the averaging technique, or the application of fresh actuarial judgement).

Where one or more of these causes are a material driver of a change in results, this should be explained, and the impact quantified. The level of detail at which this should take place should be proportionate to the circumstances. In particular, we note that when explaining the impact of changes in parameters, it may sometimes be appropriate to explain the impact of changes in each individual parameter value, and at other times be appropriate to explain the impact of a change in the basis of selecting the parameters.

- there should be disclosure of any change in approach used for estimating a significant assumption (e.g. method of calculation or data source). The disclosure should include whether the change in approach of itself leads to a significant change to the assumption used and, if material, some quantification.