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The Director
Board for Actuarial Standards
5th Floor, Aldwych House
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Dear Louise

BAS Exposure Draft on Technical Actuarial Standard – Insurance

Thank you for opportunity to reply to this Exposure Draft. The views expressed in this letter are my own and I am not authorised to make a response on behalf of my employer. My comments are based on my expertise as a non life pricing actuary in the London Market.

Scope

With the current wording the TAS will have major implications for the day-to-day work of London Market pricing actuaries. To single out UK actuaries in this way is likely to reduce the involvement of actuaries in this important area. Solvency II will soon define a comprehensive regime covering all pricing work, whether performed by UK actuaries or not. A better approach would seem to be to wait for the SII regime and then tailor the TAS around it.

With many other experts involved it would seem to be more in line with BAS's own scope if the TAS were restricted Reserved Work.

Materiality

The Scope & Authority of Technical Standards definition of materiality does not work for a pricing actuary. Every result of a pricing actuary's work influences the user and therefore is material. Thus even the smallest deal is material using this definition. This has the perverse effect of redefining the well understood term to mean something quite different: "anything which could influence the user regardless of how small" when materiality means "something financially significant that would need reporting".

I appreciate that there is an attempt to deal with this by including the concept of proportionality. However, having defined everything as material the pricing actuary is left in an insidious position of deciding what proportionate means in each situation. Unfortunately, it will be others, with the benefit of hindsight, who will ultimately decide if he has made the correct judgment.

It would be far better if materiality were defined in accordance with normal financial practice and avoid this tortuous situation.

The pricing environment

Pricing actuaries usually work in teams with other experts, underwriters, cat modellers and other numerate practitioners. The expert in charge of the deal will consider the advice and may or may not take it into account. The point is that we are dealing with experts who understand the issues and are capable of writing the business profitably without UK Actuaries.

The transactions rely heavily on verbal information and verification between the parties involved. The actuary is part and parcel of this environment. In the appendix I give typical examples of communications within such a team. To ask the actuary to produce superfluous documentation for the sake of creating a permanent record will reduce the actuary's productivity and be unwanted by the user. I therefore strongly disagree with statement 2.19.

Many of the assumptions that an actuary makes will be in the translation of submitted data prior to entry into a company standard tool. These are often instinctive assumptions and adjustments to enable the tools to calculate a loss cost. (e.g. missing data or data which looks incorrect.) To have to document these would be unrealistically cumbersome. Another expert would quickly judge whether the tool quotation accurately reflected the submission data.

Other assumptions are derived from experts either explicitly or implicitly and the actuary is simply in the position of using inputs from these experts.

Companies recognise the commercial realities of the situation and have set up more appropriate methods of ensuring high quality work. Peer review, deal referral and post deal audit, are commonly employed.

In this environment I would expect that it would be common practice for pricing actuaries to obtain an opt out from the TAS. This would be an uncomfortable position where pricing was included in theory but excluded in practice. This cannot be good for the profession and I urge the board to reconsider its approach.

Aims

Companies have employed a steadily rising number of actuaries to pricing roles. This in a commercial environment where actuaries are expensive but are seen to add significant value. The aim of the regulation "Through the new regime, the FRC will seek to promote high quality actuarial practice and the integrity, competence and transparency of the actuarial profession - to the benefit of all those who rely on actuarial advice." though laudable would not be achieved in this market. Users already feel the value; the TAS as proposed will reduce rather than enhance the value added in London Market pricing.

Where company wide tools are developed then it is entirely appropriate that they are fully documented. For many companies the TAS will be formalising what is standard practice and already required by their risk management functions.

Conclusion

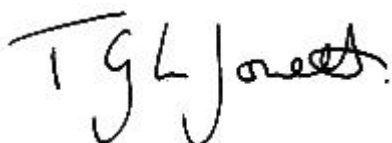
To single out UK Actuaries from all the experts who work in pricing, would I believe, be counter productive, reducing the number involved and reducing the number of deals assessed.

I believe that opt outs will be commonplace in the London Market with the TAS in its current form.

With the additional compliance requirements of the TAS I would be left with little choice but to stop authorising UK membership payments for my overseas team members. They would then only be members of their home societies and unencumbered.

If you would like to discuss this with me I am very happy to meet with you.

Yours sincerely

A handwritten signature in black ink that reads "TGL Jowett". The signature is written in a cursive, slightly slanted style.

Tom Jowett FIA

Appendix: Typical communications in a pricing team

Situation 1

Conversation between an actuary and an underwriter where there are assumptions to be made about the data. The underwriter understands the data and assumptions, he just can't do the work himself in the time available.

Underwriter: Hi Actuary, just got a deal in. I haven't got time to model this just now. Can I email you the data for you look at?

Actuary: Sure, I'll get onto it after I've finished this deal.

Actuary makes assumptions about the incomplete data and completes the input into a standard tool and prints out some standard output.

Actuary: I've got some results, when do you want to discuss them?

Underwriter: Right now

Actuary and underwriter discuss the data, assumptions and results ending up with:

Underwriter: I'm happy with that, I'll take it from here. Thanks.

The underwriter uses the results and the actuary then moves on to another piece of work.

Situation 2

Typical emails between an actuary and an underwriter

Underwriter: email to actuary. Hi Actuary, just priced this deal. Could you take a look please. It's a clash deal, we've got a few losses but no clashes in the data. I've assumed x and y to get the price. I'd appreciate it if you would run through it and return to me your completed model.

Actuary: email to underwriter. Hi Underwriter. Assumptions as discussed. Completed model attached.