

The Director
Board for Actuarial Standards
5th Floor, Aldwych House
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30 June 2010

Dear Sir/Madam

Insurance TAS

I am writing in response to your invitation to comment on the Exposure Draft of the Insurance TAS. My particular area of expertise is in pricing and managing underwriting profitability in the London Market – both companies and Lloyd's syndicates – and the comments below are focused on this area.

This letter on behalf of myself and also the 50 actuaries and others listed below, each of whom is responding in a personal capacity.

By way of background we would first like to say two things:

1. We understand and support the objectives of BAS in improving the transparency, reliability etc. of actuarial work, particularly when advising persons who are less expert in the modelling methods and assumptions (eg pension scheme trustees) or when the actuarial work is part of formal governance controls (eg assisting auditors in forming audit conclusions).
2. Pricing in the London Market has been a phenomenal success story for actuaries which began, virtually from a standing start, in the mid 1990s. Using actuaries for pricing has not been the result of any regulatory or legal requirement, but because underwriting firms have made the commercial decision to do this.

The substantive comment we want to make is that we disagree with the proposal that the Insurance TAS should automatically cover all general insurance pricing work carried out by actuaries. It is possible that some aspects of pricing activity should be covered, but we disagree with the automatic inclusion of London Market pricing.

In the London Market pricing often involves high volumes of transactional activity, and actuaries are working in a team with underwriters who fully understand the issues, uncertainties and limitations attaching to the data and assumptions – for example the uncertainties that apply to broker supplied data, and the potential for large claims not in the historic data, whether it be a worldwide terrorism account or a US quake cat exposed account. The requirement for actuaries to formally repeatedly document assumptions and uncertainties that are already known by the experts they are reporting to, and the restrictions in the TAS on how actuaries should do pricing work, are inappropriate in this environment.

Furthermore, in General Insurance pricing work is carried out by a range of people with different skill sets and experience: underwriters, statisticians, financial analysts, reinsurance analysts, cat modellers, UK actuaries and actuaries from overseas professional bodies. Requiring UK actuaries, singularly in this list, to operate to a different (and we believe, inappropriate), standard is likely to damage and reduce the contribution that actuaries can make.

BAS originally concluded that TASs should generally cover only Reserved or Required work, because in other circumstances users of actuarial services should be able to choose whether the standards of a TAS should apply or not. The proposed Insurance TAS changes the default position in that the TAS applies unless the person commissioning the work instructs the actuary to depart from the requirements of TASs. We anticipate that a large number of organisations would choose to apply this option, and indeed we believe it would be appropriate for them to do so.

Please do not mis-understand our comments. It is obviously important that general insurance firms are run properly and that all pricing processes – whether performed by actuaries or others – are done properly and the uncertainties and assumptions they incorporate are properly understood. This is precisely one of the issues that Solvency II is addressing. It is constructing an operating regime that defines what needs to be done for the proper operation of the insurance firm and defines this from the perspective of the firm, not the particular type of person carrying it out. We believe that it would be inappropriate for BAS to overlay on top of this a specific requirement that applies just for actuaries. The exception of course is Reserved or Required work that is carried out solely or primarily by actuaries, which might include pricing processes that are material to the firm via the actuarial opinion on underwriting policy, and we fully support that in due course when the roles are defined and understood these should be subject to TASs. But not day-to-day transactional pricing in the London Market.

The way that the Insurance TAS is drafted means that all pricing work is automatically covered. For the reasons set out above we believe this is inappropriate for pricing in the London Market and we do hope you will be able to reconsider this. If you would like to discuss this further we would be very happy to discuss it with the BAS member experienced in or responsible for London Market General Insurance pricing.

Yours sincerely



Tony Jones

Director, *UMACS Limited*

The above response to BAS is supported by the following:

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