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FAO: Louise Pryor, Director

26 August 2010

Dear Louise,

## Consultation Paper on Transformations

Deloitte is pleased to respond with comments on your *Exposure Draft of the Transformations Technical Actuarial Standard* and, as always, we welcome your consultative approach. We set out below our key comments on the exposure draft.

### General Comments

The draft is an improvement, incorporating most of our previous comments and covering a narrower scope of work. It remains, however, quite generic. This significantly limits its ability to be effective to users in the specific technical areas that the draft covers. We believe the TAS will be most valuable to users if it gets sufficiently close to the relevant principles for the specific types of work even though there are principles that cover all the types of work.

We think that there are two types of work that are covered by this TAS:

- Advice considering the impact of changes to benefits/cashflows and
- Advice considering changes to security.

There will be times where the scope of work of the actuary will only address one of these whilst other times it will address both. We believe that the TAS needs to articulate the difference arising from the two types of work, and how the principles apply. For example: most of the pensions applications are about benefit/cashflow changes. Non-life part 7 transfers are generally about security. Some life transformations will operate on the nexus of security and benefit changes.

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In addition, security is a matter of judgement, and is provided by regulation. Clarification is required to whether the TAS requires a commentary on the movement in regulatory security or some other measure. If it is some other measure, should this be determined using rating agencies, economic capital or something else? We also recommend that the appropriate level of regulatory security is defined.

The status of the summary of the report prepared by the independent expert under a part 7 transfer needs to be considered. These are sometimes prepared by the actuary and sometimes by the legal team with a review by the actuary. They are of necessity cut-down versions of the report. We think on balance that such summaries should be clearly outside the scope of the TASs, but would like the BAS to confirm that it agrees with this view.

## ***Definitions***

The terms “actuarial work” and “materiality” should be explicitly defined. A possible intuitive definition of actuarial work is “work performed by an actuary” and that could easily lead to misinterpretation of scope in particular cases. Also, it is unclear whether “actuarial work” would include advice on the reaction of other parties (as referred to under the first bullet of D4.7) for transfers without consent.

In addition, we believe that the definition of “users” is too broad. It should distinguish between those:

- To whom the report is addressed and those with whom there is expected to be a contractual relationship and duty of care; and
- To whom the report is provided for information only (for example, when the report is a public document).

## ***Scope***

The scope for insurance in paragraphs C.1.9-C.1.12 appears too wide and is certainly much broader than C1.5-C1.7 for pensions work. For insurance, it appears to capture work carried out in the preparation or consideration of the transformation. We believe that these should be covered suitably by the Insurance TAS and that the scope here should be restricted to the “fairness opinion” work.

## ***Principles***

### ***Data***

Paragraph D2.1 mentions “parties” but this is not defined. We recommended that the term be defined to gain clarity on who the parties are. For example, does it also include staff of the insurer and suppliers to the insurer?

### ***Reporting***

Under D.4.3 clarity also needs to be given as to whether this paragraph covers only the beneficiaries as defined in the scope of the actuary’s work, e.g. members of the pension scheme which the actuary is advising. For example, if the transformation involved the transfer of liabilities from one pension scheme to another we do not believe it appropriate to require the actuary to comment on the implications for beneficiaries of a pension scheme on which the actuary does not provide advice.

Also on this point we suggest that paragraph D.4.4 be reworded to cover material risks impacted by the transformation rather than all material risks to the benefits of beneficiaries. This should assist actuaries in preparing reports that do not contain detail that is not relevant to assessing the impact of the transformation.

It is also unclear what paragraph D.4.10 adds beyond the generic TASs.

It is not clear if the requirements of paragraph D4.11 are to provide a few examples or a range of assumptions. We therefore suggest the term “plausible” is defined. To expect the actuary to justify

their approach and give alternative views may lead to a situation where the report contains too many results and thus become incomprehensible. For example, credit risk can be assessed in a number of ways, and each option has a range of plausible assumptions.

Paragraph D.4.12 onwards discusses type of opinion. This is an important issue and we recommend discussing it earlier in the standard as we believe that it is of primary importance when conducting this type of work to identify and communicate what sort of opinion is being given. We think that users will be very supportive of the standard setting out the principles that are to be followed here.

Some considerations are:

- a) Are all policyholders covered, or just most, or no material groups omitted?
- b) How confident is the actuary: 50/50; more likely than not; 19 in 20; 199 in 200?
- c) One-way or two-way test – it is often not necessary to think about those who have been advantaged by the transformation (some of the suggestions in paragraph D.4.13 may be inappropriate in this light)

The wording of paragraph D.4.14 seems potentially onerous. The actuary may not necessarily know the full advantages to be gained. We suggest amending the phrase “advantages to the party” to “rationale provided by the party”. In addition, we are not convinced that this would always be something that should be required, particularly in the pensions context.

### *Response to questions*

Other than the above, we have no comments on the specific questions that were set out in your exposure draft dated June 2010. We hope that you will find our responses useful in developing an appropriate standard on insurance. If you would like to discuss further any of the points we have raised, please contact David Murray (Life Insurance, 020 7303 3372), Alex Marcuson (General Insurance, 020 7303 3378) or Paul Geeson (Pensions, 020 7303 0878).

Yours faithfully

**Deloitte LLP**