

Private and Confidential

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Dear Sir

Paper from FRC on a conceptual framework for actuarial standards

1 Introduction

On behalf of PricewaterhouseCoopers, I have pleasure in providing the PricewaterhouseCoopers response to the consultation document.

Given the generic and conceptual nature of the document, our response is deliberately short highlighting whether or not we agree with the points raised and adding short riders. We trust there will be plenty of opportunity for detailed comment at a later consultation stage when more detail is provided.

2 About PricewaterhouseCoopers (PwC)

In the UK, PwC provides assurance, tax and advisory services. Our clients include public and private companies, central and local Government, banks and private equity houses, private individuals and not for profit organisations.

Our actuarial staff provides services in a number of areas – we employ actuaries in three primary areas:

- Life insurance
- Non-life insurance
- Pensions

A significant proportion of the work in these areas is with other parts of the firm and in areas outside those that might be considered as “main-stream” actuarial. In addition, we have actuaries in smaller numbers working in investment, healthcare and share plans.

You will see from the Institute and Faculty year book that our number of qualified actuaries ranks as one of the five biggest employers of actuaries.

3 General comments on the document

There seems to be very little on non-life insurance, or for that matter other areas outside pensions and life insurance. We presume that the same approach would be made to these areas of work but note that there are significant differences in the nature of the actuarial information and in the regulatory frameworks.

Any new standards run the risk of being perceived as imposing unnecessary costs which would not be proportional to the needs of users of actuarial information, and would therefore not be used and would dilute the value of SAPT as a differentiator of good quality actuarial information. We would urge appropriate consultation with practitioners, particularly in the less common fields mentioned above.

In order to set standards for actuarial practice, it will be necessary to define for this purpose the term “actuarial”. Actuaries work outside “traditional” areas (for example in the areas mentioned above, and risk management) in addition, non-actuaries work in what have previously been traditional actuarial areas. The intended scope is not clear from the consultation document but it is fundamental that the scope of any standards is clearly defined.

We note that, if this scope were to be defined as “actuarial advice” as in Para 1.2.1 (i.e. “... by actuaries”), this could lead to different standards applying to similar information and advice given for the same purpose by different people.

4 Comments on the five questions in section 3

Q1. *The BAS priority should be to focus on standards that relate to actuarial information, over the other issues discussed (section 1.2).* Agreed but only if, as said above, there is absolute clarity on what is meant by such phrases as “actuarial information”, “actuarial science” and “actuarial advice” and that these are appropriate. We note that, as indicated in Para 1.2.1, actuarial information may be qualitative as well as quantitative; and may well be much wider than the limited scope of “financial products”.

Additional Rider:

- (a) The Board should ensure that any standards are consistent and coherent with those issued by all other Regulators (e.g. FSA and TPR) and other developments as listed in Appendix A3 of the consultation paper (e.g. Solvency II, IAIS, SOA).

Q2. *The needs of those who rely on actuarial information should be the primary foundation on which actuarial standards are developed as discussed (section 1.4.1).* Agreed.

Rider:

- (a) It is important that any standards are proportionate and bear in mind the needs of, for instance, big and small. As an example, in pensions, the result should not be over burdensome for smaller schemes yet should adequately cover the needs of all (big and small).

Q3. *Prudence should be regarded as decision-makers’ attitude to risk (evidenced by the risks they accept or avoid) and is not an element of measurement, as discussed (section 1.4.12 et seq).* Agreed, as any prudence should be explicit.

Q4. *The concept of SAPT will provide a useful means of distinguishing high quality actuarial information (section 1.7).* Partially agreed.

For reserved role work, we agree. For work of another nature we struggle as to what is meant by the point. We can certainly envisage situations where non-actuaries could do the work just as well as an actuary and not be bound by the SAPT. In such a situation, the actuary may not, because of the SAPT, have the flexibility to do the highest quality work and a SAPT could have the opposite effect to that intended. Equally, there may be situations where the SAPT does deliver as intended. Therefore in the absence of a definition on what is covered by the SAPTs and/or some examples, we have to disagree in the interim for non-reserved roles. Actuaries must be free to deliver highest quality work in such situations.

In addition, Para 1.7.6 appears to indicate that SAPT would take precedence over commercial agreements between two parties, and that they could create onerous obligations to third parties over and above the legal principles that already exist; these would be impractical and unacceptable.

Q5. *The BAS should develop a generic communication standard (as recommended by Morris) as well as detailing specific communication requirements and standard reports in each SAPT standard. If so, which of the six items from the Morris listing are applicable to every report containing actuarial information?* Partially agreed.

Riders:

- (a) We note that not all of the areas in A1.14 will be applicable in all circumstances. Also, in many circumstances, areas such as data and controls exercised over the calculations will also be relevant.
- (b) We would wish to discourage too much detailed prescription. There is a need to distinguish between actuaries advising their client and the results of such advice being made public. We favour compliance with A1.14 principles and give freedom within that, rather than prescriptive outputs to cover the whole range of actuarial work which would impose disproportionate requirements.
- (c) There is need to define communications – is it just written reports or does it cover letters, presentations, etc.?
- (d) As mentioned above, it will be essential to avoid duplications / differences with existing, ongoing and future guidance and regulatory requirements.
- (e) It must not affect the ability of professionals to use engagement terms to clarify legal relationships or the precise scope of work.

5 Other comments

Section 2. We agree that market consistency may well be highly relevant to “value” in many circumstances. However, we believe that there are other, relevant concepts such as (in pensions) funding which does not have adequate coverage: funding is not just about value but also about expected returns and there is a clear need to understand / agree how this should be determined, used and communicated. Similarly, “real-world” models play an integral part in modelling of risk and capital.



Finally, in view of the wide range of activities conducted by actuaries at PwC, we would welcome the opportunity to meet up with FRC representatives to discuss practical implementation.

Yours faithfully

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