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Dear Nigel,

ACA Response to BAS Paper “Preliminary Consultation Paper Towards a Conceptual Framework” April 2007.

The Association of Consulting Actuaries (ACA) welcomes the Board of Actuarial Standards preliminary consultation paper as significantly contributing to the debate on the philosophy and form of future actuarial standards. Our apologies for the delay in responding.

The ACA comments are made from the position of its members who are consulting actuaries primarily working in the fields on employee benefits, insurance and investments. **The comments below are in addition to those made separately by members at our Sessional Meeting in June attended by both Paul Seymour and yourself.**

21/11/2007

Responses to BAS Questions

In response to the questions raised in Section 3 of the Paper.

1. Whilst the BAS's wish to prioritise its focus on standards that relate to actuarial information, over other issues, is understandable in practice this split between actuarial information and actuarial advice is a somewhat artificial one.

When communicating actuarial information to the Board of an insurance company, or other clients, the actuary will naturally be asked questions about the information, for example to put it in the context of the actuary's broader experience of the insurance industry.

It is likely to be unclear to many users of actuaries what is information and what is advice, particularly if this is given orally? It is unlikely to be practical in these situations for the actuary to specifically state what is subject to actuarial standards and what is not.

Consequently whilst appreciating the BAS priorities, the ACA would like to see comprehensive and joined up guidance as soon as is practical to avoid situations where there may be ambiguity.

We would encourage the BAS to consider whether regulating "actuarial advice", as defined, is within their remit. Our suspicion is that the regulation of matters which do not directly relate to actuarial science is in the scope of the Institute and Faculty of Actuaries' responsibilities for ethics.

2. The needs of users of actuarial advice should be a major consideration in drafting actuarial standards as proposed by the BAS. However in many situations the users of the actuarial advice may be many with potentially conflicting interests.

For example in an insurance mergers and acquisitions situation among the users of actuarial advice may be: the purchaser, the seller, both their policyholders, equity providers, debt providers, the regulator and the Court. It would be difficult, if not impossible, to provide detailed guidance for all the parties involved in such a transaction.

Among pension scheme trustees, there is significant diversity of knowledge, which results in a need to tailor communications to the capabilities of the specific audience. The existing GN9 pension actuarial valuation report has become so detailed that it has often become reduced to the role of

compliance document, used to record trustee decisions after the event, rather than the main document used in consultation.

If it is to be useful and usable, guidance emerging from the consideration of the needs of users of actuarial information should be principles based and not prescriptive. We do not believe that the prescribed use of standard reports will result in information that is the most decision-useful for all recipients of actuarial information, bearing in mind that many of those users will only have to deal with a report in relation to a single company or pension scheme and so will not benefit from having reports that are the same as those used by others companies or schemes.

3. Insurance companies are required by the FSA to develop and document their attitude to risk. There may be different attitudes to risk depending upon the circumstances being considered. When advising an insurance company the actuary should take into account the specific attitude to risk of that insurer.

Similarly, pension trustees are required to adopt prudent assumptions in the funding of pension schemes.

It would be to the benefit of users of actuarial information for the prudence in that information to be explicit and consistent with the users' attitude to risk. However, any standards for the measurement and communication of different levels of prudence will need to allow for the individual circumstances that such advice is given in.

A formulaic approach to determining what is and is not "prudent" is unlikely to succeed. Whether or not an approach is prudent depends not only on the likelihood of an adverse result, but also on the size and significance on that result for the users of actuarial information. Again principle based, rather than prescriptive, guidance would be most useful here.

4. As proposed by the BAS there is a risk that Standard Actuarial Principles and Techniques (SAPT) will either be too generic to be useful or too prescriptive and consequently encourage a tick box mentality.

Where SAPTs are developed wide consultation should be undertaken to ensure that they are both meaningful and useful for the specific circumstances they are envisaged being used in. Even with SAPTs it remains likely that two actuaries following the SAPT could produce significantly different results for the same assignment, reflecting the fact that there is still a significant amount of judgement inherent in actuarial work.

5. The six bullet points outlined in A1.14 are likely to be relevant to all actuarial communications. However, the relative importance of each bullet point will vary considerably between different types of projects. For insurance work sensitivity and scenario analysis is likely to be key where options and guarantees are involved.

I hope this response, coupled with the points made at our Sessional meeting will be of assistance in moving matters forward.

Kind regards

David Robertson

On behalf of the Association of Consulting Actuaries

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