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Dear Sirs

FRC Discussion Paper: Promoting Actuarial Quality

I am writing to you to give feedback on the FRC Discussion Paper, "Promoting Actuarial Quality", published in May this year. I am a Fellow of the Institute of Actuaries (1994) working in the general insurance sector as Chief Financial Officer of Chaucer Holdings PLC. This response is made in my personal capacity.

I found the discussion paper clear and thorough. Hence, there are only two matters I wish to comment on.

Q4 (i) Have we identified the key drivers of actuarial quality? How can they be added, re-defined or re-structured?

I believe there are two issues that need more emphasis here:

- the credibility of data; and
- understanding the underlying business.

Section 4.6 covers the quality and reliability of data, but omits any mention of the credibility of data. It is, of course, perfectly possible to have high quality, reliable data, but for that data to have little credibility for the analysis in which it is being used. This is particularly true where the analysis is focused on the tail of a distribution, e.g. ICAs, reinsurance efficacy.

I believe that the blind use of available data to parameterise models, without a clear understanding of the credibility of that data in the context to which it is being applied, represents a major threat to the quality of actuarial work. I believe this problem to be commonplace in general insurance.

Regarding understanding the underlying business, this is briefly mentioned in paragraph 4.11 under the heading "Technical skills of actuaries", but is not really picked up in the subsequent paragraphs. I believe this is a significant issue in general insurance, where commercial lines classes are often extremely heterogeneous within and between time periods. Quality is jeopardised by inappropriate parameterisation and application of models due to a lack of understanding of the underlying business.

Again, I believe this to be a significant issue which is exacerbated by a very superficial coverage of general insurance business in the actuarial education.

Q6 (ii)/(iii) Have we identified the main drivers/threats in relation to actuarial quality in general insurance?

Paragraph 6.18 mentions "doubts about the accuracy of claims data". I think this gives the wrong impression. It is not generally the accuracy of claims data that is in doubt (it is no more likely to be inaccurate than any other data). Rather, the problem lies with the credibility of the claims data as a basis for parameterising any actuarial models applied to it.

Thank you for the opportunity to comment on the paper. I hope you find this contribution useful, and I look forward to the next stage of his process.

Yours faithfully

Mark Graham