

Emily Brown

From: David Hare [david_hare@standardlife.com]
Sent: 30 September 2008 23:57
To: Actuarial Quality
Cc: Louise Pryor; Bruce Porteous; Colin Ledlie
Subject: FRC consultation on promoting actuarial quality

Dear Ms Brown.

Thank-you for the opportunity to comment on the FRC's discussion paper on "Promoting Actuarial Quality".

This is an important topic as actuaries play such an important role in so many areas of financial services. We congratulate the FRC on this well-written paper which covers most of the main issues. We have restricted our comments to the general sections 2-4 and chapter 5 on life insurance. I hope this is in order.

In terms of the specific questions asked in chapter 2:

Q2 (i). Yes, the use and interpretation of mathematical models is an underlying feature of actuarial work. We agree with the comment in 2.2 that sometimes the model is implied rather than explicit - actuaries do more than just operate increasingly sophisticated models. However, the use of the term "actuarial models", or at least the definition offered, seems too restrictive - for example, a model that projects longevity improvements by cause of death would not meet the definition in 2.3. It may also have been helpful to refer to "models used by actuaries" as well as "actuarial models".

Q2 (ii). A key feature of actuarial work that should be brought out more strongly is the considerable use of professional judgement in the context of real uncertainty, both stochastic and that due to incomplete data and information.

Chapter 3 covered some helpful ground. However, it was a pity that para 3.14 referred to "current concerns" when it was merely restating findings from the Morris Review of some time ago. It would have been helpful had the chapter gone on to note the developments since the Morris findings.

Chapter 4 refers to "actuarial methods" without actually defining the term. Perhaps it would have been more appropriate to refer to "methods used by actuaries" in order to reflect the wideness of some actuaries' work.

Also, chapter 4 refers to "actuarial information" without defining what is meant. Is this term intended to refer only to information supplied by an actuary in connection with work covered by one of the BAS standards?

Paragraph 4.6 seems to adopt a narrow view of actuarial input - for example, it make no mention of TCF opinions or the exercise of judgement, nor the important communication roles that many actuaries have.

I presume that the intention of Paragraph 4.9 was to restate an historic concern that "actuarial methods had lost touch with developments and research in related professional and academic disciplines"? The use of "actuarial methods have lost touch" would seem to imply current failings, but without giving any evidence, nor credit for the developments within the profession in recent years.

Albeit a point of detail, it may not be true to attribute the historic male bias in the UK profession to its emphasis on merit-based testing of mathematical ability!

Paragraph 4.36, in seeking to emphasise the advisory nature of the actuarial reserved roles, may not give sufficient weight to the fact that many actuaries, through for example delegated authority from insurer boards, do have very real and significant decision-making responsibilities too.

In terms of the specific questions in chapter 4:

Q4 (I). Yes, you have identified the key drivers of actuarial quality, although more weight could be given to the significance of sound judgement and wide experience in contributing to quality actuarial advice. It would also be worth adding to the list of sources of technical skills in 4.12, some reference to personal development activities in other areas beyond traditional actuarial fields - e.g. Research and networking in the banking and environmental fields.

Q4(ii) By changing the first driver to refer to "methods used by actuaries" rather than just "actuarial methods", the drivers would seem to apply in sectors apart from life, general and pensions.

In terms of section 5:

Q5 (i) Yes, in the main, you have accurately described the main features of actuarial work in life insurance, although the description of the AFH role in 5.9 did not seem to include the important risk identification, monitoring and advice-giving aspects required in regulation. Also, in 5.10, there could have been mention of other customer transaction-related activity - e.g. Policy wording and other literature writing and review; oversight of the operation of UL funds.

Q5(ii)-(iii). Yes, again in the main, you have identified the key drivers and threats. However, more could have been said on how some of the current changes combine with commercial drivers to increase pressure on actuaries - for example:

- increasing competitive pressures across all sectors of the financial services industry;
- extensive, radical and complex regulatory change (e.g. Solvency 2, IFRS 2, MCEV) that raise the bar significantly (on, for example, enhanced risk reporting); and
- better, but increasingly complex, tools that firms now use to run their businesses. Particular challenges are in using these tools pragmatically and transparently, without diluting their power, whilst keeping abreast of related developments, such as run-time optimisation techniques, for example.

Q5(iv) yes, though some of the links could have been made more explicit and stronger.

Q5 (v) Other than the suggestions made in the companion paper from POB, there are no obvious additional activities which FRC should undertake in this regard.

I hope these comments are helpful and wish you well in your important work.

Regards.

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