

Towards a Conceptual Framework: BAS Consultation Document

I am writing in response to the consultation on the Conceptual Framework, in particular paragraphs 8.31 to 8.56, which consider the standards that would apply to Actuarial Reports. These are my personal views, and do not necessarily reflect the views of my employer.

I agree in principle that there should be certain minimum standards that apply to report writing. However, I think that the standards set out in the consultation document, if applied to all actuarial work falling under categories A and B, are too extensive. In the life insurance environment, in which I work, the most common criticism of reports produced by actuaries is that they are too long, contain too much detail and, as a result, hide the key points. I think that the standards as set out will increase the length of the reports and increase these problems.

It is undoubtedly important that the users of the advice are aware of the key assumptions, the subjectivity around these assumptions, the sensitivity of the results to these key assumptions, and the source of and any uncertainty about the data. However, these do not all need to be addressed in a single report. To do so may minimise the impact of key points.

If one report produced during the year assesses the probability that the assets may not meet the liabilities (8.48d refers), this need not necessarily be set out in all reports that estimate the value of the liabilities. To do so may mask the point that other reports are aiming to show, such as the sensitivity of the surplus to variations in market conditions. Similarly, if a description of the data is considered in a report on the year-end valuation, it need not be considered in all reports produced during the year.

In 8.37 it is suggested that the total undiscounted cashflow should be disclosed in addition to any discounted figures. Whilst this may be helpful in some circumstances, I do not believe it would be helpful in all circumstances. It is crucial that the assets and liabilities are considered on a consistent basis. So, a comparison of an undiscounted figure for the liabilities against the market value of a fixed interest asset will not aid clarity. If the aim of a report is to consider the risk that the value of the assets and liabilities will not move in line, incorporating a figure for the undiscounted cashflow will hinder effective presentation of the results.

8.48c sets out that any uncertainty around the results should be included in the report. I agree that this is important. I have found that the most effective way to do this is by considering the impact of particular scenarios, or the sensitivity of the result to key assumptions, rather than through more statistical approaches. However, there will be situations where a more statistical approach is more effective. The key point is that it is not possible to set out the most effective approach with certainty; it has to be decided in the context of the specific issue that is being considered.

In general this is the key point. Whilst I think that high level general standards for reports can, and should, be set, these have to be at a higher level than some of the standards set out in the consultation document, and need to give sufficient flexibility for variations to be applied dependent on the specifics of the task in hand. Furthermore, the standards should be set in the context of a series of reports that might be produced over a particular timeframe, rather than applying to all reports over that timeframe.

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