



Towards a Conceptual Framework

The ABI's response to the BAS's consultation paper

Introduction

1. The Association of British Insurers (ABI) represents nearly 400 member companies, which between them provide 94% of the UK's domestic insurance. It works on behalf of the UK insurance industry to keep standards high and to make its voice heard.
2. The ABI is grateful to the Board for Actuarial Standards for the opportunity to respond to its consultation paper *Towards a Conceptual Framework*.

Overall comments

3. The ABI supports the Board's aims to set out a conceptual framework for standards that apply to actuarial output and are based primarily on principles.
4. It is not yet clear to us what the final framework might look like, and this makes responding to the Board's consultation somewhat difficult. Nevertheless, we set out below some comments that we trust will assist the Board in its deliberations. We summarise our main concerns below and set out in the appendix our responses to the Board's specific questions.
5. The scope of the framework does not appear to have a conceptual anchorage because 'actuarial work' is not defined (appendix, para 10), and because the categorisation of actuarial work is based on the circumstances in which the work arises rather than on the nature of the work or its output (appendix, para 1). It is not clear what should be covered by the Board's standards and what should not, nor is it clear why the consequences of non-compliance should vary depending on the origin of the work.
6. Much of the material on the possible measurement bases (appendix, para 6) and possible approaches to actuarial calculations (appendix, para 7) does not seem to be conceptually based. It is not clear, for example, how the Framework would assist in the selection from alternatives for any particular piece of work.
7. The proposals covering the need for a generic reporting standard (appendix, para 8 to 9) do not seem to set out in general terms the needs that are to be met through such a standard and how the standard would meet them. Further, the consultation paper appears to reflect a rules- rather than principles- based approach and to require much detail, some of which may not be relevant to key users.

8. We would be happy to discuss any of these points further with you.

Association of British Insurers

31 January 2008

Towards a conceptual framework

The ABI's response to the BAS's consultation paper

Invitation to comment

QUESTIONS

- 9.1 The BAS invites the views of those stakeholders and other parties interested in actuarial practice who wish to comment on the content of this document. In particular the BAS would welcome views on the following issues:
- 1 Following the terminology of Section 3, the BAS has determined that Category A should fall *within* the scope of BAS standards and that Category E should fall *outside*. In that context:
 - a) Do respondents consider the five categories drawn up by the BAS (defined in paragraph 3.9) provide a meaningful way to determine which areas of work should be within scope and which should not?
 - b) Which, if any, of Categories B, C and D do respondents consider should be within the scope of the framework?
 - c) The BAS would also welcome feedback, and real examples, indicating whether the non-regulatory element of Category B exists in practice or illustrating any concerns that the definitions are wrongly capturing or omitting areas of work.

ABI response

1. *The key difference between the five categories appear to be logistical rather than conceptual, in that categorisation depends on the circumstances in how the work arises and not on its nature. This raises a number of questions, for example:*
 - o *If the same work may be carried out whether it is required or not to be undertaken by an actuary, wouldn't it be appropriate for the user of the information to expect the same underpinning by Board's standards and the same implications of non-compliance? Further, would it be possible for the same piece of work to fall in Categories A or B, depending only on whether the relevant regulation or other requirement specifically refers to an actuary or not?*
 - o *Would the Board be effectively abdicating to others – regulators and parties to contracts – what should be its responsibility for deciding when its standards should be applied and what they should cover?*

- o *In the absence of a definition of 'actuarial', how will it be clear what work comes within the scope of category B in particular?*

2 The BAS has set out proposals regarding the objectives and characteristics of standards in Section 4. Do respondents agree with them, specifically the proposals:

- a) to introduce some generic standards, to provide coherence and consistency across areas of work, in addition to topic-specific standards as is the case now;
- b) that standards be principle-based, rather than rule-based; respondents are asked to identify any advantages or disadvantages that they consider may flow from this approach; and
- c) that standards address outputs and responsibilities, as now, with output-based standards focusing on the users of actuarial services and their needs as decision makers?

ABI response

- 2. *We agree with these proposals.*
-
-

3 Do respondents foresee any practical issues or problems that they consider should be addressed in relation to the enforceability of standards, as set out in Section 5, in order to ensure the efficient functioning of the enforceability proposals?

ABI response

- 3. *We agree with the proposals that the standards should not amount only to recommendations and that the standards should have equal status.*
 - 4. *We suggest that non-compliance with the requirements of a standard should lead to the same consequences irrespective of whether the work is required to be delivered by an actuary or not.*
 - 5. *We note in any case that there should be allowance for materiality in the disciplinary process. Non-compliance would in some cases be immaterial and should not result in disciplinary action.*
-
-

- 4 Do respondents agree with the proposals in section 8 for:
- a) the *general* principles set out in paragraph 8.2;
 - b) the *quantification* principles set out in paragraphs 8.3-8.30;
 - c) the *generic reporting standard* set out in paragraphs 8.31-8.55?
 - d) the proposal set out in paragraph 8.48(d) for actuarial quantification of liabilities to include an assessment of the probability that the assets held by the entity at the valuation date will be sufficient to meet those liabilities; respondents are asked to focus, in particular, on:
 - any practical problems in assessing the probabilities which the proposal calls for; and
 - any limitations on the usefulness of the information if one or more of the probabilities has to be omitted from the assessment.

ABI response

6. *We suggest that the framework should go beyond the general principles set out in paragraph 8.2 so as to set out conceptually based guidance for the selection of different measurement bases for assets and liabilities and to give the rationale for any proposed default basis.*
7. *Similarly, paragraphs 8.3-8.30 explain that there is a variety of approaches that are possible for a number of aspects of actuarial calculations. We consider that the framework should set out the conceptual bases on which selections should be made from these different approaches.*
8. *We agree in principle with the Board's development of a generic reporting standard. However, we are concerned that much of the material in paragraphs 8.31- 8.55 consists of the sort of detail that the relevant standard might include rather than an assessment of the needs that the generic standard are to be met and of how that is best done. In practice, it may be difficult for a generic standard to cover all the possible requirements and to achieve benefits proportionate to the costs of meeting the requirements. Further, the detail given in the consultation paper appears to reflect a rules- rather than principles- based approach and seems not to give due recognition to materiality.*
9. *The effect would be to make Board reports much longer and probably reduce clarity, as it would be more difficult to highlight the key points. Some of the information requested (such as undiscounted values and period over which the cash flows occur) will not add any value in most cases. A decision-usefulness test needs to be included in the impact assessment of all reporting requirements.*

=====

9.2 In addition to the specific questions listed above, the BAS invites respondents' views on any other issues that may impact on the Conceptual Framework. To ensure that the significance of their point is fully appreciated by the BAS, respondents are encouraged to indicate how their comments affect the proposed Framework.

ABI response

10. *We consider that the framework should set out its scope in conceptual terms but it is not yet clear from the consultation to date what that would be. In particular, 'Actuarial' is not defined either in this paper or in the preceding one in April:*
- o In this consultation paper, the framework is described as applying to 'actuarial work', but no definition of 'actuarial work' is given;*
 - o In April's consultation paper, the objective of the framework is described as to guide the setting of standards for actuarial information. Actuarial information is defined as any information that is produced on the principles of actuarial science. Actuarial science is described as a discipline that uses actuarial techniques. Yet, though some examples of actuarial techniques are given, the paper does not include a definition of 'actuarial' techniques.*
11. *The demands for actuarial information are increasingly driven by international rather than national requirements, as reflected in the International Accounting Standards Board's insurance contracts project and the European-wide Solvency 2 based changes to prudential supervision, and as recognised by the Board at its London consultation meeting on 15 January. We would support the Board in its intention to engage with these international pressures, and suggest that this should be a priority for the Board.*