

From: [Clifford Sharp](#)
To: [Louise Pryor](#);
Subject: Re: BAS consultation paper
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Response from Clifford Sharp FIA

Board For Actuarial Standards Consultation Paper

This is the most comprehensive analysis of actuarial philosophy and practice I have ever seen in nearly eighty years actively engaged in the Profession. I look forward to the final Conceptual Framework

It would be impractical for me to comment in detail but I want to draw attention to two aspects which I suggest, need clarification.

The first is that, on many occasions, 'Value judgments' are required. Obviously any 'assumptions' by individual actuaries call for these and there are numerous other places where wordings such as 'reasonability override', 'judgment', 'proper', 'material', 'depend on circumstances', 'prudent' and many others tend to leave the application of the Conceptual Framework open to the charge of imprecision because each individual, whether an actuary or administrator, has differing values he or she will use to interpret the precise application of the directive.

Since the documents lay such stress on 'value judgments' it would be as well if this term 'values' was defined clearly. This I have sought to do in my book 'The Origin and Evolution of Human Values'.

Here is a summary of the main conclusions :-

- A. Values are each individual's habits of thinking about ethical problems. Habits are not fixed but change with time, circumstance and experience.
- B. Each Individual has different Values.
- C. Values strongly influence, but do not determine, behavior. When emotions, particularly strong emotions, come into play the more logical 'values' tend to lose their force.
- D. Values are 'caught' rather than 'taught' and there is growing evidence they are genetically influenced.

In any culture or sub-culture – such as a profession in a particular country – there is usually broad agreement on what is accepted as 'fair' and 'decent' behavior but there can be quite wide deviations by individual actuaries and the consensus will change with time.

The second matter is that of the effects of inflation which, over the years has become increasingly important. In 1928 the actuarial profession was primarily concerned with life assurance often associated with savings. While even then inflation, which was ignored in actuarial assumptions,

made a mockery of our claim to be 'scientific', had an effect as the purchasing power of the £ varied it was to some extent compensated for by the bonus system at least for with profit policies.

Today, with the emphasis on pensions, inflation becomes an ever more relevant factor particularly for those life assurance offices writing personal pensions. What clients require is a stable effective income which, in present circumstances, they are not getting. This is one of the more important factors in public distrust of the savings industry.