

SOME COMMENTS ON THE BAS DOCUMENT

Towards A Conceptual Framework: Consultation Paper

What follows are my personal comments.

Whilst the need for standards is patently clear it should be further emphasised that the approach being taken is one that seeks to avoid a “box-ticking” mentality.

The actuary should be encouraged to apply objectivity to his work and in that respect the adoption of principles-based standards is to be encouraged.

Paragraphs 2.10 and 2.11

I believe the phrase “*ethical standards*” should be “*professional standards*”.

Paragraphs 3.2 and 3.3

I agree that the distinction between “*Information*” and “*Advice*” is important. The use of the “*vs*”, however, suggests that there is tension between these two which need not be the case. Better to have used “*and*”.

If a client asks for calculations to be made on a questionable basis then this would be “*information*” and should be qualified by the statement that the results are arithmetical only and do not constitute “*advice*”.

Whilst I have no objection to the existence of categories *per se*, I think the “*Categorisation of Actuarial Work*” will probably require further work. The categories are complex and seek to be too precise leading to potential argument over which category a particular piece of work falls into.

Paragraph 3.37

In my view, the same standard should apply to the audit as applied to the original work.

Page 13

The framework should be totally generic in its application but within that framework there should be categories of work where an additional, more technical framework (or even rules) should apply. This would correspond with the levels of CPD required by The Actuarial Profession of those with different levels of responsibility.

For example, there should be a generic approach to the calculation of transfer values (using a pension scheme analogy) but within this there should be a technical approach to the basis used. Ignoring (for the benefit of clarity of this example), any regulations on the point, the generic part would require that discretionary benefits should/should not be

allowed for in the calculations but the technical part would state the level of the allowance to be made.

Page 17

The application of generic, principles-based standards for all the work of an actuary should be supplemented by rules-based technical standards that are aimed to achieve consistency of actuarial practice (where the profession is clearly split – eg transfer values).

The difficulty for the BAS will be in deciding where to draw the line. It will be too easy to capitulate to a rules-based approach for everything and be done with it.

There is no education programme designed for student actuaries to appreciate their responsibilities under a principles-based approach. They are currently mainly taught how to meet a rules-based system of standards. It might take some time for a principles-based approach to become effective.

In many firms of consultants, the actuaries discuss technical matters amongst themselves and arrive at a consensus that is rational and frequently the result of considerable deliberation. It is possible that the actuaries within one firm will find themselves agreeing between themselves how to interpret their responsibilities in one way when this is contrary to the approach taken collectively by the equally rational actuaries of a different firm.

Paragraph 4.12

The concept of separating outputs from responsibilities is interesting and should be pursued.

Paragraph 5.12

The fact that an actuary is required to “*Comply or Explain*” when a non-actuary asked to do the same work would not be so required seems to be unfair on the actuary.

There are cost implications for the client but with no particular gain (for, were there to be such an advantage in using a qualified actuary then it would have been a requirement that the work be done by an actuary in the first place).

Paragraph 5.14

The BAS intends that principle of “*Comply or Explain*” should apply at all levels of standard regardless of the generic nature of the standard. Those standards that are set at a higher level will have a “*Comply or Else*” requirement.

Does this imply that only the technical rules will have a “*Comply or Else*” requirement?

The “*reasonability override*” is probably going to have to be included but it does imply that there will be a “*get out clause*” in certain situations. Care will be needed to ensure that this is not seen as a loophole to avoid applying the standards.

Paragraph 5.17 (b)

The concept of an actuary being in “*overall charge*” and then imposing standards that would not otherwise be applied could well be impractical.

Section 7

The BAS is to be congratulated for giving this section the prominence it deserves. The public relations issues facing the Actuarial Profession would be far less than they are had actuaries been aware of the importance of the effects on clients of Risk and Uncertainty when offering advice in the past.

The BAS and the Actuarial Profession should emphasise this as a very positive aspect of the new regime. However, it will not always be possible to justify the cost of risk-based analyses that seek to apply devise and then probabilities of all possible events.

Paragraph 7.22

Assumptions as to future mortality have significant effects of pension scheme liabilities (and no doubt those of insurance companies). The mortality assumptions used in a valuation will not become “testable” until some remote future date and many employers with pension schemes are reluctant to pay now a capital sum to cover what might not, in the event, become a liability. I think the principle to follow should be one of requiring the actuary to keep this assumption under review rather than be some set assumption.

Actuaries are not prophets and sometimes do get their predictions wrong (for example, the actuarial work of the effects of an “AIDS epidemic” that never happened). It would be a pity to see yet more pension schemes close because of what in the event become over-cautious reserving now.

The statistical examples of risk and probability are interesting but do not help in setting the conceptual framework.

Paragraph 8.2

This is the first place where the word “assets” appears.

There should be some mention of the consequences of significant changes in market value after the valuation date.

There are occasions when the actuarial work requires a value to be used that is not the market value.

Paragraph 8.3

This is another very important paragraph and deserves an earlier entry in the document.

Paragraph 8.17

It is worth remembering that the effect and the incidence of risk can vary over time.

Paragraph 8.20

Small non-material risks can accumulate to become a significant factor. It would be a mistake to concentrate on only those risks that are currently "*material*" and ignore the others.

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