

## Board for Actuarial Standards

### Towards a Conceptual Framework: Consultation Paper

1. This is a well-written document that covers a wide range of issues which need to be debated. However, the Board for Actuarial Standards (BAS) must not delay in updating existing Guidance Notes in line with legislative and regulatory changes whilst this framework is being put in place.
2. It is entirely appropriate (par. 1.7) to:
  - a. Limit to the UK;
  - b. Address 'actuarial work product' as well as the 'responsibilities of actuaries'.
  - c. Be 'principle-based' rather than 'rule-based'.
  - d. Only issue standards that are definite and not merely 'recommended practice'. (par. 5.20)

The distinction in par. 4.7 is useful and helpful.

3. The balance between generic and topic-specific standards (par. 3.2) may need development as they are produced. It is probably inappropriate to try to set this balance in advance.
4. The categorisation of actuarial work in par. 3.9 is useful and helps guide subsequent analysis.
5. I will be surprised if a principle-based regime will set standards relating to individual assumptions, The modes of expression in par. 4.11 may be wide enough not to cause problems but this is an area of particular difficulty for the BAS.
6. I suspect that the proposal to distinguish between teams led by actuaries or by non-actuaries will be difficult to monitor. (par. 5.17)
7. The category of calculations for 'planning' rather than 'valuation' is an important and helpful distinction, However the setting of premiums applies to life insurance as well as general insurance (par. 6.16). Indeed it would be helpful to readers to specifically incorporate 'pricing' with in the definition of 'planning measures'. It may be the largest component of such measures.
8. The analysis in the Example in par. 6.20 omits reference to the range and skewness of results. This may be an important omission as these measures will be helpful in a recipient understanding the advice given or the measures quoted.
9. The reference to 'different techniques' in par. 6.31 is wrong. It should be 'different assumptions' as the techniques of calculation are likely to be the same. It is the assumptions that pension schemes and life insurance companies follow that will differ.
10. The section on 'Understanding probabilities' in Chapter 7 seems misconceived. It is based on applying inadequate definitions to examples (pars. 7.26 and 7.27). These examples all disappear as problems if the percentage is adequately defined.
11. This may be explained by the conclusion in par. 7.36 but by then the reader is likely to be quite confused unless a probabilist or statistician.
12. I am pleased to see that the BAS expects (par. 8.27) that there will be 'subject-specific committees' appointed to advise them.

13. I worry that 'best estimate' is not to be defined by the BAS. It is likely that it will be in the regulations underpinning Solvency II. In this case it is to be the mean of the distribution. (par. 8.36) Clearly it is important to distinguish between that term applied to an assumption applied to the output of the calculation process
14. The example presentation in par. 8.39 fails all the tests that BAS will apply in their communication standard. The clause 'the liabilities of the scheme are estimated to be £100m payable over a period of 80 years' is unclear as to the amounts and timing of those payments. The statement about the amount of assets to meet such liabilities is deficient too as it does not indicate the nature of the assets. I would hope that such a statement would be considered as failing to meet the BAS's communication standard.
15. The approach to providing a 'probability assessment' (pars. 8.48 d) and 8.49) will cause problems. By restricting the assessment to those risks that are amenable to a probability assessment, will, perforce, under-estimate the true probability given that there are other risks that are unquantifiable probabilistically but non-zero.
16. The whole area of communicating probabilities will need considerable consideration. The debate here may be inadequate to cover the considerations necessary to the communication of probabilities to users of actuarial work.
17. It is absolutely right that good reporting of actuarial work ' is to address the *implications*' of the results.

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