

The Director
Board for Actuarial Standards
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31 January 2008

Dear Sir

Towards a Conceptual Framework

Thank you for giving us the chance to respond to your consultation paper on developing a conceptual framework for actuarial standards.

There is much within the document to commend the thinking on the development of the framework and we support this in general. Our comments are therefore relatively limited, because we focus on the key questions which you have asked be addressed. Our response is contained in two appendices. Appendix A covers general aspects and the views of our pensions and life actuarial practices. Appendix B covers the views of our non-life (general insurance) actuarial practice. Please contact me on general aspects and pensions matters and Esmee Robinson on 020 7212 3342 on insurance (life and non-life) matters.

We hope our comments will be helpful as you finalise your thinking and look forward to the actual framework later in the year.

Yours faithfully

Peter Tompkins

APPENDIX A

General comments (including pensions and life)

In section 3.9 you set out 5 areas of work which might be regulated and come within the scope of the conceptual framework of the BAS.

Category A

We agree entirely that category A (areas where regulation requires that an actuary be used) sets out those areas which should be regulated and the scope may well expand in future if additional areas are added to the responsibility of actuaries.

Category B

Category B (areas where regulation requires advice but not necessarily from an actuary) is the only other area which we think could merit regulation within your framework, and only in the situation where there is a regulatory requirement to commission the work, with the possibility of either an actuary or a non-actuary completing that work without being suitably regulated. In that situation, your proposition that a suitable standard framework for an actuary performing such duties would be of assistance to the standing of the profession in the eyes of the buyer of the services is a good one. However, we would go further and say that if you do identify such situations, it may be helpful and in the public interest for you to consider whether there are other potential regulators who might regulate such a service done by others.

As part of your assessment of responses to this part of your consultation, may we suggest that you schedule any such areas which are identified as falling within category B and the extent to which these arise from the application of legislation.

Principles-Based Standards

Section 8 is the most important section on the application of the standards and we fully support the concept of a principles-based set of standards. Of course, we reserve our views as to the way in which this may operate until we see the development of draft actual standards and are able to comment on the way in which they would apply and the extent to which they would be enforceable.

One area of importance to you is ensuring that there is good communication and indeed the suggestion of improved communication standards for actuaries is something we note as under discussion. In this context, therefore, we are not entirely sure that an obligation to report undiscounted cash flows, as suggested at the end of paragraph 8.16 and further demanded in paragraph 8.37 will necessarily aid understanding. Although it would be relatively straightforward mathematically to deliver such figures, valuation reports often suffer from containing too many numbers and the addition of a further set where they do not currently exist would be more likely to hinder than enhance understanding.

In paragraph 8.24 (c), you make the suggestion that standards might include limits on the range of assumptions to be used, where there is an external regulatory requirement of some sort. We would caution after the dangers of setting limits, which then become targets, as for example with the minimum funding requirement which became the 'funding requirement' to all intents and purposes.

On the other hand we would support paragraph 8.29 which suggests that the BAS might specify criteria, rather than actual numbers which are limits on the ranges of assumptions.

We appreciate the development of section 8.48-8.51 on outcomes, followed by the section on communication. The one area where we would encourage care to be taken is in 8.48 (d) where it is

very important that probabilities and distributions which might be produced are consistent with any means used in calculating expected figures. In other words expectations and the distributions around them should be consistent with one another.

APPENDIX B

Non-life (general insurance) comments

Question 1

- We consider the categorisation of actuarial work to be reasonable and agree that Categories C and D should be outside the scope of BAS standards.
- It would be helpful if further examples were provided of work that falls into Category B, e.g. does an adjudicator for a Scheme of Arrangement fall into this category?
- The requirements in Section 3.36 relating to disclosure of assumptions could be very onerous for general insurance actuaries because of the potential number of assumptions involved with multiple classes of business. We recommend that this requirement is considered carefully and that the standards clearly specify exactly what is required in this area.
- Section 3.38 states that the BAS standards will be limited to work done in relation to the UK operations of entities. We believe that this could be interpreted in different ways and should be clarified in the standards.

Question 3

- It is not clear to us why Section 5.12 (a): “an additional set of outputs compliant with the relevant BAS standard” is included. Surely if an actuary is not going to comply with the standards, he/she will use option (b) and explain his/her reasons for non-compliance. Further clarification of the *Comply or Explain* rule would be helpful.

Question 4

- We note that a comprehensive report, as described in Section 8 of the paper, is not always required for general insurance work. For example, a company actuary may be asked by the directors to produce a brief document outlining the results and issues from a certain piece of work. They often do not want a comprehensive report. Section 8 does not cover the circumstances in which a report is required. We recommend that this is dealt with in the standards.
- We are in agreement with the BAS that undiscounted cashflows should be disclosed, along with any discounted figures. It is our opinion that the undiscounted cashflows give much more information than the corresponding discounted figure. Most general insurance work focuses on undiscounted amounts.
- Section 8.48 (d) – This requirement is inappropriate for general insurance actuaries, because a lot of the work we do is only in relation to liabilities and not to assets. We consider that this requirement should be removed, at least for general insurance actuaries.

Other comments

We have only two comments on Sections 6 and 7 of the paper.

- Both Sections relate mainly to pensions and life insurance and it is, therefore, difficult to associate these Sections with general insurance. Our concern is that when the standards are

being set and these Sections of the paper are being referred to, it could result in some inappropriate standards from a general insurance perspective.

- Our other comment relates to the Section titled “Financial Management in Insurance and Pensions”. Sections 6.26 – 6.32 discuss financial management in life insurance and pensions. The box at the end of Section 6, however, states that for reasons set out in these Sections, “the apparently different mindsets of actuaries working in insurance and pensions...”. This comment is misleading because the relevant Sections cover only life insurance and pensions and do not discuss general insurance whatsoever.