

Financial Reporting Council

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Dear Maria

Future provision for mortality and other demographic analysis

Thank you for sending us copies of the Actuarial Profession's survey on the work of the Continuing Mortality Investigation (CMI). Although the FRC is neither a direct user nor supplier of CMI data, so that it would be inappropriate to complete the survey ourselves, we thought it might be helpful if we comment on:

- the contribution of the CMI to actuarial quality (Questions 1-2 and 29),
- areas for further research (Questions 3-7 and 29), and
- the role of the Actuarial Profession and other stakeholders including the FRC in promoting further research (Questions 8-17 and 29).

We welcome the research that has been done by the Profession and the CMI, which we see as supporting the Technical Actuarial Standards (TASs) to be issued by the Board for Actuarial Standards (the BAS) and the quality of actuarial work more generally. We consider that there is scope both for a collaborative approach to the investigation of mortality, and for extending the Profession's research activities to support a wider range of actuarial assumptions.

To assist you in promoting wider discussion of these issues, we have arranged for this letter to be published on the FRC website.

The contribution of the CMI to actuarial quality

We agree that the CMI's work is useful, and that it is important for the Profession to seek views on its scope and governance from a wide range of stakeholders.

The FRC does not have a specific role in any of the actuarial research areas identified, but these are relevant to our independent oversight and standard setting. The BAS has as you know worked with the Pensions Regulator, the FSA, the CMI and the Profession, to clarify expected practice after concerns were raised about the allowance being made for future mortality improvements, and it undertook a consultation on mortality assumptions in 2007-8: www.frc.org.uk/bas/projects/project0092.html. This built on the CMI's work, and supported the development of the principles which are proposed for inclusion in its Technical Actuarial Standards (TASs), such as the need for clear presentation without excessive detail, accessibility to users, and the need to understand and explain the variability of the results.

More generally, the FRC has established a framework for assessing the quality of actuarial work (the Actuarial Quality Framework). By reference to this framework we think that the work of the CMI and similar bodies can contribute primarily to:

(a) *reliability and usefulness of actuarial methods* – by establishing robust criteria for selecting assumptions which incorporate findings from theoretical and empirical research based on past experience and current market structures, and effective and continuing review within and outside the profession of the methods used, so as to encourage innovative, transparent and consistent approaches; and

(b) *technical skills of actuaries* – by enabling actuaries to become adept at using and interpreting the latest actuarial and related methods in their area of expertise, and as a source of lifelong learning and development in actuarial and industry specialist issues from a range of academic and commercial disciplines. The competence of practising actuaries is a continuing priority for the Profession, and has been the subject of the Professional Oversight Board's monitoring and recommendations.

The CMI's work may also contribute to other aspects of actuarial quality, namely:

- *communication of actuarial information and advice,*
- *ethics and professionalism of actuaries, and*
- *working and regulatory environment for actuaries,*

for example through the establishment of benchmarks which achieve wider recognition and facilitate greater understanding of actuarial work and its quality.

Areas for further research

As the survey recognises, mortality is just one assumption among many, albeit one with which actuaries are strongly associated. We consider that the Actuarial Profession could usefully review the extent to which its members and users of their work have access to other relevant data (demographic and otherwise) on which they rely in producing actuarial information, and the adequacy of the mechanisms for ensuring their reliability. The Profession might consider a fuller range of actuarial work, the main sources of data, and how data can be used and validated – an illustrative list for consideration is set out in the Annex to this letter.

Role of the Actuarial Profession and other stakeholders including the FRC

As noted above, we consider that there is merit in the Actuarial Profession seeking to ensure that there is relevant research available so that members and users of their work can rely on the data and methodology used in producing actuarial information. The FRC's actuarial stakeholder group have also encouraged us to promote the establishment of an actuarial 'think-tank' to promote relevant research.

However, we do not have a particular view of how, or by whom, any particular type of research should be undertaken. The Profession or an independent research body may find it convenient to work, as appropriate, with Government and regulators, as well as relevant agencies such as the Office of National Statistics, the Government Actuary's Department, the Association of British Insurers, the National Association of Pension Funds, the Council of Mortgage Lenders, the Royal Institute of Chartered Surveyors, academic bodies, as well as other relevant users and suppliers of data.

We note that the Actuarial Profession's original aim was that the CMI should be an independent body which would provide high quality objective analysis and which would draw a distinction between the professional bodies and preparation of the tables that they sponsor. We agree that whatever arrangements are established to undertake, co-ordinate or verify this work, they should be:

- transparent, collaborative and accessible to both actuaries and non-actuaries, including members of other academic and professional disciplines;
- focused on producing, sponsoring or verifying data that are robust, relevant and up-to-date; and
- subject to public accountability and challenge mechanisms, which deliver both value-for-money for the Profession and other sponsors, and freedom from inherent or perceived bias or conflicts of interest.

We look forward to seeing the outcome of your review. Please do not hesitate to contact us if you have any questions or need any further input from us.

Yours sincerely

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Annex - Illustrative list of further research topics

- (a) relevant mortality and sickness data and trends from which projected claim incidence (and where appropriate duration) can be assessed and modelled;
- (b) other relevant insurance statistics, including the main classes of property, transport, travel and liability insurances;
- (c) independent statistics in relation to crimes, accidents, and other relevant man-made and natural events, which are likely to lead to insurance claims;
- (d) relevant indices and yields for a variety of asset classes including the main traded instruments such as equities, and real property;
- (e) relevant banking and credit default statistics, including correlations with economic values and other statistics;
- (f) other relevant economic statistics including various measures of price and incomes inflation; and
- (g) market data for a number of relevant financial services, including the costs of administration and security, market transactions, fund management, borrowing and professional indemnity insurance.

It is not of course necessary for all this work to be done by the Profession, and much is currently undertaken by other bodies, albeit often with actuarial input.