



Financial Reporting Council

# Post Implementation Review: Technical Actuarial Standards

**Call For Feedback**

May 2022

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# 1 Introduction

- 1.1 This Call For Feedback seeks feedback on the current Technical Actuarial Standards 200<sup>1</sup> / 300<sup>2</sup> / 400<sup>3</sup> (TAS 200 / 300 / 400), Actuarial Statement Of Recommended Practice 1<sup>4</sup> (ASORP 1), and other potential sector specific areas which might benefit from further technical standards, requirements or application guidance.

## Background

- 1.2 The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. Following the Morris Review of the UK Actuarial Profession (published in March 2005) the FRC took on responsibility for independent oversight of the UK Actuarial Profession and the independent setting of technical actuarial standards in April 2006.
- 1.3 The first TAS was issued by the FRC in 2009, and the TAS regime was revised by the FRC in 2016, taking effect from 1 July 2017. There are currently four TASs.<sup>5</sup>
- 1.4 Members of the Institute and Faculty of Actuaries (IFoA) are required to comply with TAS 100 for all technical actuarial work within the geographic scope of the FRC. TAS 200, 300, and 400 relate respectively to insurance, pensions, and funeral plan trust businesses, and must be complied with if the technical actuarial work falls within the scope of application specified in the relevant TAS.
- 1.5 Compliance with TASs is incorporated into the IFoA's Disciplinary and Capacity for Membership Schemes.<sup>6</sup> In addition, the FRC operates an investigation and discipline scheme in relation to matters involving members of the Institute and Faculty of Actuaries which raise or appear to raise important issues affecting the public interest in the UK.
- 1.6 The Actuaries' Code and Actuarial Professional Standards (APs), which the IFoA is responsible for, are not within the scope of this review.

## Independent Review of the FRC and reform

- 1.7 In the Independent Review of the FRC in 2018 Sir John Kingman raised the question of the FRC's (or its successor: The Audit, Reporting and Governance Authority's (ARGA)) role in overseeing the actuarial profession. Whilst the consideration of the recommendations and any changes that follow will be taken forward by the Government, the FRC recognises that in the meantime it is the FRC's duty to keep the TASs and other technical actuarial standards under regular review and reconsidered on a regular five year cycle. In that context, the FRC commenced the post implementation review of the TASs in 2021.

## Purpose

- 1.8 The FRC is carrying out the post implementation review in two phases. The first phase of the review focussed on the Framework for TASs and the more generic aspects of the TASs including TAS 100. The second phase of the review will focus on the sector specific TASs.

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<sup>1</sup> <https://www.frc.org.uk/getattachment/c866b1f4-688d-4d0a-9527-64cb8b1e8624/TAS-200-Insurance-Dec-2016.pdf>

<sup>2</sup> <https://www.frc.org.uk/getattachment/d47aecc1-89a7-40af-8bfe-6ac095be6d2a/TAS-300-Pensions-Dec-2016.pdf>

<sup>3</sup> <https://www.frc.org.uk/getattachment/7c531301-230c-4c9b-9fe1-1ddd10aeca56/TAS-400-Jul-20-Full.pdf>

<sup>4</sup> <https://www.frc.org.uk/getattachment/1a9464bd-9f77-451e-b5a5-846a091b64b3/ASORP-1.pdf>

<sup>5</sup> [https://www.frc.org.uk/actuarial-policy/technical-actuarial-standards/technical-actuarial-standards-2017-\(1\)](https://www.frc.org.uk/actuarial-policy/technical-actuarial-standards/technical-actuarial-standards-2017-(1))

<sup>6</sup> <https://www.actuaries.org.uk/upholding-standards/complaints-and-disciplinary-process/disciplinary-and-capacity-membership-schemes>

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- 1.9 In February 2021 the FRC issued a Call For Feedback<sup>7</sup> for the current Framework for Technical Actuarial Standards<sup>8</sup> (TASs), Technical Actuarial Standard 100<sup>9</sup> (TAS 100), and potential technical actuarial standards in relation to IFRS 17 – *Insurance Contracts*. In November 2021 the FRC issued a Position Paper.<sup>10</sup>
- 1.10 The FRC is now inviting feedback on the rest of the TASs, namely the sector specific TASs, ASORP 1, and potential additional technical actuarial standards in relation to other sector specific areas. Actuarial Standard Technical Memorandum 1 (AS TM1: Statutory Money Purchase Illustrations) is excluded from this Call For Feedback as the review of AS TM1 is considered separately.
- 1.11 In taking forward this post implementation review the FRC’s principal concern is that the TASs and other technical actuarial standards used in the UK continue to support the delivery of high quality technical actuarial work and satisfy the Reliability Objective.<sup>11</sup>
- 1.12 The breadth of technical actuarial work continues to expand. In the traditional areas of insurance and pensions, the change or introduction of new regulations are changing market practice which in turn drives a change in the technical actuarial work being performed in these sectors. This includes the introduction of IFRS 17 in the insurance sector, defined benefits pension schemes’ funding code, pensions freedoms, and legislation in relation to the Collective Money Purchase Schemes in the pensions sector. Actuaries are also expanding into new areas, such as investment, finance, and modelling work conducted related to the pandemic. All these developments are likely to provide new challenges to actuaries.
- 1.13 As part of the post implementation review, the FRC considers any relevant developments in international actuarial standards, such as the International Standards of Actuarial Practice (ISAP) as set by the International Association of Actuaries (IAA), the global association that brings together actuarial professions from around the world. In this phase, we will be focusing on the sector specific ISAPs rather than the ISAP 1 (General Actuarial Practice), which has been considered in the previous phase of work.

## Process

- 1.14 As part of the FRC’s effort to seek comprehensive feedback on the TASs the FRC is publishing this Call For Feedback to invite feedback to help inform the FRC’s thinking as the FRC considers what, if anything, needs to be changed in the way that technical actuarial work is regulated.
- 1.15 The FRC welcomes feedback from actuaries and ‘users’ of technical actuarial work (e.g. Directors, Non-Executive Board members, Pension trustees). Given the specificity of the topics, the FRC has set out a specific question intended for users of technical actuarial work in Section 2, whilst the remaining questions are intended for actuaries. Nonetheless, please feel free to answer whichever questions are appropriate to you.
- 1.16 Feedback should be submitted via the [online form](#) or by email to [APT@frc.org.uk](mailto:APT@frc.org.uk). Feedback should be received by **5pm on Friday, 8 July 2022**. If you represent a group of interested parties who may benefit from further direct outreach from the FRC on this TAS post implementation review, please contact the FRC on the same email address above.
- 1.17 Information provided in response to this call for feedback, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA) and the Environmental Information Regulations 2004). The FRC will process any personal data in accordance with the DPA. Information on the FRC’s privacy policies is available at <http://www.frc.org.uk>.
- 1.18 All responses will be regarded as being on the public record unless confidentiality is expressly requested by the respondent. A standard confidentiality statement in an email message will not be regarded as a request for non-disclosure. We do not edit personal information (such as telephone numbers or email addresses) from

<sup>7</sup> <https://www.frc.org.uk/getattachment/9ba317dd-f728-4a01-a0e2-b4bd2d4d1ff4/TAS-CFF-Final.pdf>

<sup>8</sup> <https://www.frc.org.uk/getattachment/03a1d210-621b-411a-8605-4f8a51cbeb21/Framework-for-FRC-actuarial-standards-April-2019.pdf>

<sup>9</sup> <https://www.frc.org.uk/getattachment/b8d05ac7-2953-4248-90ae-685f9bcd95bd/TAS-100-Principles-for-Technical-Actuarial-Work-Dec-2016.pdf>

<sup>10</sup> [https://www.frc.org.uk/getattachment/0b857435-5c8f-431a-b399-5cc57f0ec935/FRC-Post-Implementation-Review-of-Technical-Actuarial-Standards\\_November-2021-FINAL.pdf](https://www.frc.org.uk/getattachment/0b857435-5c8f-431a-b399-5cc57f0ec935/FRC-Post-Implementation-Review-of-Technical-Actuarial-Standards_November-2021-FINAL.pdf)

<sup>11</sup> <https://www.frc.org.uk/getattachment/03a1d210-621b-411a-8605-4f8a51cbeb21/Framework-for-FRC-actuarial-standards-April-2019.pdf>, Paragraph 3.2

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submissions; therefore, only information that you wish to publish should be submitted. If you are sending a confidential response by email please include the word 'confidential' in the subject line of your email.

- 1.19 We aim to publish non-confidential responses on our website within ten working days of receipt. We will publish a summary of the consultation responses, either as a separate document or as part of, or alongside, any decision.

- QUESTION 1: Please provide your name (note: anonymous responses will not be accepted).
- QUESTION 2: Are you responding as an individual or on behalf of an organisation? If the latter, please specify.
- QUESTION 3: Please provide your email address. The responses to this survey are being collected and processed by the Financial Reporting Council (FRC) in order to inform certain aspects of the Actuarial Policy Team's (APT) work. In particular, the data collected through this survey will be used by the FRC's APT for the Technical Actuarial Standards Post Implementation Review. The FRC will process any personal data provided by you in accordance with the General Data Protection Regulation and the Data Protection Act 2018. More information about how we handle the personal data of stakeholders is contained in the privacy notice on the FRC website at <https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc>.
- QUESTION 4: Do you request confidentiality of your response? (note: if so, your response will NOT be published to the FRC website as described in paragraphs 1.17 to 1.19)

## 2 Feedback from Users of Technical Actuarial Work

- 2.1 As part of the Call for Feedback and outreach in 2021, the FRC has received valuable feedback from users of technical actuarial work. We observed during these discussions that users typically do not distinguish the effect on the actuarial information between the generic TAS (TAS 100) and the sector specific TASs, where applicable. As such, we will take into account the feedback we have already received as part of last year's outreach in reviewing the sector specific TASs. Nonetheless we would welcome any further feedback users may have.

- QUESTION 5: *[for users of technical actuarial work]* Have the TASs been effective in ensuring the quality and clarity of the actuarial information you receive is reliable for any decisions that you take based on that information?

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## 3 TAS 200: Insurance

### Over-arching questions on TAS 200

- QUESTION 6: To what extent has TAS 200 been effective in supporting high quality technical actuarial work in the insurance sector?
- QUESTION 7: What aspects of TAS 200 have caused difficulties? Please explain what those difficulties were and how you were able to overcome them.

### Areas of specified work in TAS 200

- 3.1 TAS 200 sets out requirements for specified areas of technical actuarial work, being broadly:
- valuation of insurance contracts and liabilities;
  - prudential regulatory capital requirements and the Own Risk and Solvency Assessment (ORSA);
  - with-profits discretion;
  - audit and assurance; and
  - insurance transformations.
- 3.2 We will be reviewing the effectiveness of these requirements in support of high quality technical actuarial work in these areas and whether further provisions are needed. For example, in relation to with-profits discretion, whether additional requirements around the treatment of capital modelling/requirement and considerations around the determination of asset share would better set out the FRC's expectations in this area. See paragraphs 3.4 to 3.10 for audit and assurance and insurance transformations.
- 3.3 We are also seeking views on whether there are other areas of insurance-related technical actuarial work where additional provisions would be welcome. In particular, technical actuarial work to support pricing frameworks is within the scope of application of TAS 200, but there are currently no specific provisions relating to that area of work. Whilst technical actuarial work in support of pricing frameworks must comply with TAS 100, as per all technical actuarial work (within the geographic scope), further specific considerations may be warranted, such as judgement around the allowance for expenses and return on capital in the determination of the technical price.

- QUESTION 8: To what extent have the Provisions 12 to 23 of TAS 200 been effective in supporting high quality technical actuarial work in the specified areas?
- QUESTION 9: Have you observed difficulties with the quality of technical actuarial work in support of pricing frameworks? Would further additional requirements help clarify the FRC's expectations in this area?
- QUESTION 10: Are there other areas of insurance-related technical actuarial work, beyond the areas covered in Provisions 12 to 23 of TAS 200, where you would welcome further technical actuarial standards?

### Audit and assurance

- 3.4 When carrying out technical actuarial work to support the provision of an audit opinion, it is critical that the actuarial specialists and/or actuarial experts plan and perform their work with professional scepticism, as required by Provision 19 of TAS 200. We have observed from recent FRC Audit Quality Review inspections that some actuaries performing audit work have not been effective in challenging the actuarial work carried out by the insurer.

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- 3.5 There were also instances where the FRC concluded that the actuaries performing audit work did apply an appropriate level of professional scepticism, but this was not made sufficiently clear through evidence in the actuarial working papers or actuarial reports within the audit file.

QUESTION 11: Does TAS 200 currently give sufficient direction on the nature of professional scepticism, what that involves, and how that should be demonstrated?

### Insurance transformations

- 3.6 Technical actuarial work is often required in relation to insurance transformations, including the transfer of insurance business under Part VII of the Financial Services and Markets Act 2000 (FSMA) which is subjected to approval by the court under Section 111 of FSMA.
- 3.7 Under Part VII, an independent expert is required to provide a scheme report accompanying an application to the court requesting approval of an insurance business transfer scheme. Such an independent expert is a practitioner who has the skills to produce such a report and is typically a qualified actuary.
- 3.8 The existing Provisions 16 and 17 of TAS 200 set out the requirements for the technical actuarial work in this area, which include that insurance transformations' communications should cover the impact on different classes of policyholders' benefits; the impact under the proposed and alternative material assumptions; and the changes in material risks.
- 3.9 In early 2022 both the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) published updates to their approaches to Part VII transfers of insurance business to provide greater clarity to firms and independent experts regarding their expectations when they assess the insurance transfers and reviewing the independent expert's report. Such expectations are set out in the PRA's Statement of Policy<sup>12</sup> (January 2022) and the FCA's guidance<sup>13</sup> (February 2022).
- 3.10 As part of the post implementation review of the TASs, the FRC is reviewing the effectiveness of the TAS provisions to ensure the standards continue to promote high quality technical actuarial work in relation to insurance transformations. As part of this review, we will also take into account the PRA's and FCA's updated expectations in this area.

QUESTION 12: Do Provisions 16 and 17 of TAS 200 in relation to insurance transformations provide sufficiently clarity in setting out the FRC's expectations of technical actuarial work in this area? Are there further additional requirements which should be considered?

QUESTION 13: What changes should be made to TAS 200 to better reflect the PRA and the FCA's expectations of the Independent Expert's work in a Part VII transfer?

### IFRS 17

- 3.11 The insurance contract accounting standard IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023, replacing the interim accounting standard IFRS 4. The International Actuarial Association (IAA) has introduced International Standard of Actuarial Practice 4 (ISAP 4) as a model actuarial standard, focused on work produced in relation to IFRS 17.
- 3.12 In our Call For Feedback published in February 2021 we invited comments on adopting ISAP 4 in relation to IFRS 17. The majority of the feedback received did not support the FRC adopting ISAP 4. Some respondents were concerned that ISAP 4 was inconsistent with the principles-based nature of the TASs (and the generic nature of

<sup>12</sup> <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/statement-of-policy/2022/the-pras-approach-to-insurance-business-transfers-sop-jan-2022.pdf>

<sup>13</sup> <https://www.fca.org.uk/publication/finalised-guidance/fg22-1.pdf>

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TAS 100), while other respondents rejected the idea of incorporating the material of ISAP 4 into technical actuarial standards regardless of form.

3.13 Following the Call For Feedback, we stated in the position paper that we considered those concerns to be valid and that there was no compelling case to adopt ISAP 4 as is. We indicated that we would continue to consider whether the TASs, and TAS 200 in particular, would benefit from revision given the implementation of IFRS 17.

3.14 We consider that the implementation and application of IFRS 17 could present challenges for the reliability of technical actuarial work in that area, for example:

- from increased complexity of underlying data and data flows through the valuation process;
- from the interpretation of the principles-based accounting standards when developing new concepts such as the Contractual Service Margin (CSM);
- from applying significant areas of judgement, such as in the derivation of the discount rate, the risk adjustment for non-financial risk or the transition balance sheet;
- from difficulties of communicating new or more complex results to users; and
- from changing boundaries between the work of actuaries and other functions.

3.15 Some challenges, such as communications and working in a multi-disciplinary team, are of a more generic nature and are being considered as part of TAS 100. Other challenges are specific to the technical concepts of the work in the sector and may need to be addressed in TAS 200.

QUESTION 14: How should TAS 200, in particular the provisions in relation to financial statements (Provisions 12 and 13 of TAS 200), be updated to address the challenges in respect of the implementation of IFRS 17?

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## 4 TAS 300: Pensions

### Over-arching questions on TAS 300

- QUESTION 15: To what extent has TAS 300 been effective in supporting high quality technical actuarial work in the pensions sector?
- QUESTION 16: What aspects of TAS 300 have caused difficulties? Please explain what those difficulties were and how you were able to overcome them.

### Scheme funding and financing

- 4.1 Provisions 6 to 16 of TAS 300 set out provisions in respect of scheme funding and financing under the following broad topics:
- assumptions;
  - statutory duties;
  - risk assessment and future evolution of the scheme; and
  - reports of record (including Appendix A, which sets out information the scheme funding report should include).
- 4.2 Since the last review of TAS 300 there have been a number of notable changes in the pensions field including the release of the Pensions Schemes Act 2021 ('the Act').
- 4.3 The Pension Regulator's draft revised Defined Benefit (DB) funding code of practice, which introduces a new regulatory approach and updated key principles following the Act, is expected to have its second consultation in late summer 2022. One proposed item relates to the regulator's twin-track compliance approach to carrying out valuations. This may affect the way Trustees of pension schemes consider assumption setting and hence their requirements in terms of actuarial information.
- 4.4 We have observed the following trends in pensions, each of which could lead to users of funding reports having different requirements from the actuarial information they receive than was the case when TAS 300 was last updated:
- DB schemes moving closer to their funding targets.<sup>14</sup> As buy-out becomes more viable, users of funding reports may require actuarial information more related to the insurance market.
  - more schemes accessing risk transfer solutions<sup>15</sup> such as buy ins and longevity swaps, and the range of solutions is possibly expanding with innovations, such as capital backed journey plans.<sup>16</sup> Users of funding reports may require more detail in respect of both past and future transactions so specific provisions in TAS 300 may be necessary.
- 4.5 The Act also introduced legislation in relation to Collective Money Purchase (CMP) Schemes and was followed up by the Occupational Pensions Schemes (Collective Money Purchase Schemes) Regulations 2021 which added the necessary legislative detail for CMP Schemes to be implemented and will come into force from 1 August 2022. The combined legislation places importance on the technical actuarial work supporting the authorisation and running of these arrangements, with actuarial information likely to have a direct effect on members' benefits each year. As part of this review, we are considering the need to introduce provisions in TAS 300 which are

<sup>14</sup> <https://www.aon.com/unitedkingdom/retirement-investment/defined-benefit-pensions/db-pension-risk-management-journey.aspx>, p9 of full report

<sup>15</sup> [https://www.hymans.co.uk/media/uploads/Risk\\_Transfer\\_Report\\_2022.pdf](https://www.hymans.co.uk/media/uploads/Risk_Transfer_Report_2022.pdf), p4 and p36 (Appendix II)

<sup>16</sup> <https://www.uk.mercer.com/content/dam/mercer/attachments/europe/uk/uk-2021-mercer-the-alternative-risk-transfer-options-sept21.pdf>

specific to CMP. Such provisions, if introduced, could sit alongside the existing provisions on scheme funding and financing, including Appendix A.

**QUESTION 17:** How are recent or anticipated changes in the regulatory framework requirements in relation to scheme financing changing the nature of advice and support provided by practitioners? What changes should be made to TAS 300 to reflect these?

### Factors for individual calculations

- 4.6 Provision 17 of TAS 300 covers the provisions in respect of factors for individual calculations.
- 4.7 The pensions freedoms introduced in 2015 are likely to have led to a change in the behaviour of members of defined benefit schemes, and they are more aware of the options available to them. Schemes are also increasingly exploring member options to accelerate the timetable to end game solutions. This has placed further prominence on the factors used for individual calculations. For example, the factors used to calculate transfer values at ages close to or at retirement have added significance, since many schemes now quote (or plan to quote) Cash Equivalent Transfer Values in retirement packs.<sup>17</sup>
- 4.8 In addition, factors are required in individual calculations which may not be routinely performed in the past. For example, many schemes now have incentive exercises (such as Pension Increase Exchange offers to all members at retirement) embedded in their business-as-usual processes<sup>18</sup> and so TAS 300 may need to be amended to take account of the specific features of these transactions.
- 4.9 In December 2020 the IFOA published their thematic review report titled "Pensions: actuarial factors used to calculate benefits in UK pension schemes".<sup>19</sup> The review recommended the following changes to TAS 300 in respect of factors used for the commutation of pensions into cash lump sums:
- i) "Actuarial guidance/standards should make clear that three years is seen as the 'maximum' time between commutation rate reviews, rather than the default, ...";
  - ii) "Actuarial guidance/standards should make clear that actuaries should consider providing advice on commutation rates during the valuation process, rather than once it has been completed";
  - iii) "Actuarial guidance/standards should make clear that actuaries should compare the proposed commutation rates with annuity costs or long-term funding targets if these measures are relevant to the scheme"; and
  - iv) "Actuarial guidance/standards should make clear that the underlying assumptions should always be shown in commutation rate advice, even if these are implied assumptions, to enable relevant comparisons to be made".
- 4.10 We will consider these recommendations, including whether there are wider applications to individual factors other than those used for commutation of benefits, as part of this review exercise.

**QUESTION 18:** How has the development in pensions freedoms in recent years impacted on your technical actuarial work for actuarial factors? What changes should be made to TAS 300 to reflect these?

**QUESTION 19:** Are there other areas of pensions-related technical actuarial work where you would welcome further technical actuarial standards?

<sup>17</sup> <https://www.aon.com/unitedkingdom/retirement-investment/defined-benefit-pensions/db-pension-risk-management-journey.aspx>

<sup>18</sup> <https://www.aon.com/unitedkingdom/retirement-investment/defined-benefit-pensions/db-pension-risk-management-journey.aspx>

<sup>19</sup> <https://www.actuaries.org.uk/system/files/field/document/Pensions-Thematic-Review...PDF>

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## 5 TAS 400: Funeral Plan Trusts

- 5.1 At the beginning of 2020 the Funeral Planning Authority (FPA) changed their rules to require an annual Asset Adequacy Report. This is within a context of transition of authorisation and supervision from the FPA to the Financial Conduct Authority (FCA). In July 2021, the FCA published its policy statement setting out the rules, guidance and standards for when the funeral plans sector enters its regulation on 29 July 2022. The changes to the regime may mean that some providers may be unable to transition, and others may choose not to do so. In these circumstances there is an increased risk to customer detriment as the provider may engage in a strategy to maximise withdrawal of funds from the FPT before the end of the transition period or closure of the fund, especially if at the time when assets are insufficient to cover the liabilities.
- 5.2 The current TAS 400 was last updated in July 2020, taking effect in December 2020. In light of the new authorisation and regulations of the sector, the FRC will be reviewing TAS 400 to reflect the latest requirements in relation to the technical actuarial work performed in this sector.
- 5.3 One area of concern is that plans issued by Burial Societies are not intended to be authorised by the FCA. From a recent thematic survey conducted by the IFoA<sup>20</sup> it appears that some actuaries do apply TAS 400 to valuations of such plans voluntarily and found them helpful. Our review will take into account the consideration of whether applying TAS 400 would promote high quality technical actuarial work in this area.
- 5.4 Concerns were identified by the thematic survey that there is a lack of consistency in the terminology used between different actuaries and different plans. This was considered problematic in the survey analysis as the valuation results are in the public domain and encourage clarity and lead to better interpretation and comparison by readers of the plan valuation results.

QUESTION 20:	To what extent has TAS 400 been effective in supporting high quality technical actuarial work for funeral plans trusts?
QUESTION 21:	What aspects of TAS 400 have caused difficulties? Please explain what those difficulties were and how you were able to overcome them.
QUESTION 22:	What are your views on the timings of the changes to TAS 400 given the timings of the change in authorisation and supervision regimes?
QUESTION 23:	Do you think that TAS 400 should create a standard terminology to be used for funeral plan valuation reports?
QUESTION 24:	What are your views on whether TAS 400 should apply to technical actuarial work for Burial Societies?

<sup>20</sup> <https://www.actuaries.org.uk/system/files/field/document/Funeral%20Trusts%20Thematic%20Review.pdf>

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## 6 ASORP 1: Financial Analysis of Social Security Programmes

- 6.1 Actuarial Statement Of Recommended Practice 1 (ASORP 1) promotes high quality technical actuarial work where actuaries are performing a financial analysis (or analyses) of social security programmes (SSPs), or reviewing, advising on, or opining on such analyses. The scope of technical actuarial work to which ASORP 1 is applicable to is defined by the definitions for 'Social Security Programmes' and 'Financial Analysis' in the glossary of ASORP 1.
- 6.2 During the process of adopting ISAP 2 as ASORP 1, we observed that the majority of work in relation to SSPs in the UK is being carried out by a small number of entities, and so the relevance of ASORP 1 is not widely considered by other practitioners in the UK. During the COVID-19 pandemic actuaries have contributed their expertise to numerous projects and studies relating to the pandemic. This has ranged from blogs and collating data on the subject to high profile modelling on the impact of the virus on social security programmes (particularly the National Health Service) in the UK. Some of the technical actuarial work performed may have fallen within the scope of ASORP 1.
- 6.3 As part of the post implementation review, we are reviewing the extent to which practitioners are aware of ASORP 1, how ASORP 1 applies to their work (and whether they understand when they should be applying ASORP 1 to their work) and whether ASORP 1 has been effective in promoting high quality technical actuarial work supporting financial analyses of SSPs.

- QUESTION 25: To what extent has ASORP 1 been effective in supporting high quality technical actuarial work in the social security sector?
- QUESTION 26: What aspects of ASORP 1 have caused difficulties? Please explain what those difficulties were and how you were able to overcome them.
- QUESTION 27: Do you consider the definition of work which falls in the scope of application of ASORP 1 is clear? What changes should be made to the definitions set out in ASORP 1 to improve clarity?
- QUESTION 28: Have you observed an increased variety of technical actuarial work which falls into the scope of application of ASORP 1, for example since the pandemic? What changes should be made to ASORP 1 to reflect the new types of work and practices?

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## 7 Other Topics

- 7.1 Whilst actuaries working within the pensions and insurance sector have had involvement in the setting of investment strategies and selection and management of investments for some time, the number of actuaries now working in investment management has increased in recent years, with the IFoA offering a route to qualification by specialising in investment and finance.
- 7.2 The complexity of investments containing demographic elements continues to increase; longevity swaps are commonly used to transfer longevity risk and longevity bonds were issued in the last decade to transfer risk to the capital markets. Many insurers now make use of Equity Release Mortgages to back their annuity liabilities.
- 7.3 There is also an increasing demand among pension schemes and insurers for investment in non-traditional, less-liquid assets, such as infrastructure and commercial real estate loans. These investments are typically heterogenous and the risk characteristics are more complex than traditional credit assets.
- 7.4 Finally, actuaries will need to be alert to the increased interest and investment in 'green' assets and requirements for ESG<sup>21</sup> reporting. Actuaries may also become more involved in work in relation to the determination of ESG rating data which typically measures entities' exposure to ESG risks.
- 7.5 All of this brings new challenges to the actuaries working in investment and finance as well as actuaries who are involved in other roles such as reserving and capital modelling.
- 7.6 Actuaries may also become more involved in the modelling work in relation to climate change itself, beyond incorporating climate change risks in their BAU activities.

QUESTION 29: What changes should be made to the existing sector specific TASs to reflect these developments?

QUESTION 30: Would there be greater coherence in the requirements in relation to technical actuarial work in the fields of investment and finance by setting them out in their own standard?

QUESTION 31: Are there any areas where you would welcome further standards; in particular, new areas where an increasing number of actuaries are performing technical actuarial work?

<sup>21</sup> Environmental, Social, and Governance



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