Lucida

Response to the Board for Actuarial Standards on the Actuarial Information used for Accounts TAS

Lucida is a specialist UK insurance company focused on annuity and longevity risk business. We currently insure annuitants in the UK and the Republic of Ireland (the latter through reinsurance).

Section 1 – Introduction

We recognise the importance of the work of the Board for Actuarial Standards and broadly agree with its aims. However we are concerned about the proliferation of TASs. There appears to be very little within the TAS on actuarial information used for accounts and other financial documents which is only relevant to this topic and we wonder how much value is being created by the introduction of this TAS.

Since the main users of TASs will be actuaries, generally the fewer TASs the better. Otherwise actuaries are forced to consult a multitude of TASs each time a piece of work is undertaken. Hence we have a strong preference for the alternative approach of revisiting the existing TASs to ensure that they are amended to capture missed points.

Section 2 – Purpose

The proposed purpose of the TAS on actuarial information used for accounts and other financial documents appears too broad since paragraph (b) is likely to be beyond the scope of the remit of the actuary. The actuary is not responsible for the ultimate content of the accounts and other financial documents and it is unlikely that such documents will contain sufficient information for readers to "rely on and understand actuarial calculations" in these documents.

All that the actuary can do is ensure that the information he or she provides to the directors and others with responsibility for preparing accounts and other financial documents is appropriate (i.e. paragraph (a)).

However paragraph (a) appears to be captured in the purpose of other TASs.

Section 3 – General Concepts

No comments.

Section 4 – Scope

We do not believe that the accounts TAS is necessary. However on the assumption that our view does not prevail, our answers to the specific questions in this section are as follows:

3. The scope set out in 4.6 seems reasonable. However scope should not include the qualitative disclosures around risk management as this is often not an actuarial responsibility and hence would lead to an inconsistent application of this TAS.
4. Preliminary statements of annual results should be within scope.
5. Although actuaries may be involved in the preparation of material for analysts, their formal involvement could be very limited and hence including this information within scope could in practice prove to be impractical.
6. We agree that budgeting should not be within its scope. We also agree that non-UK accounts and Lloyd's syndicates should be out of scope.
7. We do not believe that any other work should be in its scope.

Section 5 – Data

Consistent with our response to Section 1, we do not believe that there are any data issues specific to accounts and other financial documents which are not (or could not be) covered in TAS D.

We very much agree with your conclusion in paragraph 5.3.

Section 6 – Assumptions

We have no other suggested principles on assumptions and have the following observations on this section:

- **Paragraph 6.7** – The suggestion that limitations of the information prepared in the accounts if used for other purposes be disclosed is impractical. Users of accounts ought to be aware of the basis on which information is prepared and it should not be the responsibility of the actuary to point out the adequacy of the reporting basis.

- **Paragraph 6.9** – Whilst the actuary may make recommendations about the assumptions, the assumptions are ultimately the Board's responsibility. Once the actuary has made his or her recommendations (in writing), we believe that his r her responsibilities in this area have been fulfilled. In addition, it is not clear what is meant by the "aggregate report".
- **Paragraph 6.10** – The requirement that <u>all available</u> information be used in assumption setting is impractical, particularly with regard to information on financial and economic outlooks and longevity. We would suggest that this principle should be softened by removal of the words "all available".
- **Paragraph 6.13** – As noted in the consultation paper, this is repetition of a principle that is set out elsewhere.
- **Paragraph 6.17** – We believe that this principle should be softened to state that "Adjustments should not generally be made to one assumption to compensate for a shortcoming in another assumption". This is because in order to simplify modelling there may be examples where this principle is breached, for example when modelling dependants pensions, the proportion married assumption is often increased to reflect the fact that no allowance is made for the pensions of dependent children.

Section 7 – Modelling and Calculations

We have no other suggested principles on modelling and agree with the principle in paragraph 7.4. However we believe that TAS M or TAS R could be amended to include this principle and the principle made more generic, for example:

> Materiality levels relating to the piece of work, for example as determined for accounting purposes, should be taken into account in the models used and the calculations performed.

Section 8 – Reporting

We have no other suggested principles on assumptions and have the following observations on this section:

- **Paragraph 8.4** – We disagree with this principle. Whilst the actuary can inform the assumption setters of the range of possible assumptions, it is unlikely to be possible or desirable for this indication to be given in accounts and other financial documents. Indeed the provision of this information is likely to make interpretation of the accounts even more confusing.

  In some situations, it may be helpful to provide sensitivities to assist users in understanding the importance of particular assumptions but these are already prescribed by the accounting standards and hence require no additional guidance from BAS.
- **Paragraph 8.6** - Whilst it may be helpful for the comparison suggested in this section to be provided, the scheme actuary is not responsible for the information that is actually provided in the accounts in relation to the pension scheme and hence including this principle is unlikely to achieve the desired effect.

Section 9 – Transition from adopted Guidance Notes

No comments.