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Purpose: Comments on the consultation for a new framework for Technical Actuarial Standards ("TASs")

Canopus contributions: We have two sets of feedback to represent comments from across the business. These two sets of responses include feedback from:

- i the embedded Actuarial team; and
- i the embedded Actuarial pricing team.

Please find below feedback from the embedded in-house Actuarial team at our non-life Lloyd's managing agency.

Overall we believe the aggregation of the three existing TASs for Data, Reporting and Modelling is sensible. Conducting our work in a professional manner to a high level is paramount to our day-to-day jobs and ensuring we are adding value to our business. Applying the principles in a proportional manner and understanding the audience is key to an effective Actuarial Function.

Our main concern with the proposed framework is the extension of the scope. We believe this will be challenging for embedded Actuarial teams working in General Insurance. We work with other teams in the organisation collaboratively on a daily basis and for some pieces of work the timescales are short. The current proposed TAS 100 may mean that our involvement would be restricted unless the scope and principle of proportionality is clarified more within the proposed framework. We do not want our work and contribution to the business to be undermined. This appears to be a risk arising as part of the proposed communications described in the consultation paper under TAS 100.

Question 4.1 Do you agree that the extension of the scope of application of TAS 100 to all actuarial work would be of benefit to users of actuarial work? If you disagree please explain why.

Paragraph 4.5: “When we first considered the scope of the TASs we were cautious about extending the scope too far as we were uncertain of the potential costs of the new standards and we did not want to discourage users from obtaining relevant actuarial work. Our postimplementation review of the TASs indicated that practitioners were becoming comfortable with the TASs and were not finding resistance from users to their application.”

Paragraph 4.6: “We have always considered that users have the right to expect that all actuarial work is carried out professionally and to a good standard. TAS 100 has been developed to provide a measure of the minimum standard that users should expect. It establishes high-level outcomes to be achieved in all actuarial work.”

We disagree.

Paragraph 4.5 explains the reason for the scope of the existing TASs. The scope has been widened significantly for the proposed TAS 100.

We agree that work should be carried out professionally and to a good standard. The widening of the scope of the work may make it time consuming to produce all of the required documentation and as a result be a cost to the business (where time could be spent informing other business decisions). The widening of the scope will increase costs, both in monetary terms and time spent by actuarial resources.

Have the users of Actuarial work been consulted as part of the proposed TAS 100?

We are concerned that producing a lot of additional documentation may not be what the users of Actuarial work require. Where Actuaries are embedded in the business it may be that communications become heavily caveated. It is important that Actuarial work is adding value to the business and helping the users but not obscuring the key messages provided.

We do not believe the widening of scope would be of benefit to all users of actuarial work. It is easy for key recommendations and opinions to be lost in the length of the communications. While the high level principles of the proposed TAS 100 are sensible it is important to provide balanced communication relative to the size of the piece of work performed. For example, if communications become too lengthy there is a risk that results and recommendations are obscured and the user of the work feels unable to base a meaningful decision on the work performed.

For relatively small pieces of work the level of documentation now required would be disproportionate to the amount of analysis performed. For example a half hour piece of analysis would now require the same length of documentation as a full regulatory piece of work.

We need to be aware as a profession that our users want results/recommendations and not a list of caveats – they want clear and understandable communications that help them.

Question 4.2 Do you agree with the proposed definition of actuarial work? If not please provide reasons and suggest an alternative approach (paragraph 4.11).

Paragraph 4.8 “TAS 100 is capable of being applied whenever such techniques are used, and we do not wish to restrict its application artificially through a narrow definition of its scope. However, we recognise that we need a practical definition of actuarial work which can be used by other regulators when mandating the use of TAS 100. The work which we consider should be in the scope of TAS 100 is work which users are entitled to treat as actuarial work either because:

- 1) the nature of the work is clearly actuarial; or*
- 2) the work is presented (either explicitly or by implication) as actuarial. 12 Consultation: A new framework for Technical Actuarial Standards (November 2014) We would normally expect both these conditions to be met, since the majority of work which is clearly actuarial can be expected*

to be presented as such. However, we need to address the possibility that work is not presented as actuarial even though it clearly is, or that work is presented as actuarial even when its nature is more ambiguous.”

Paragraph 4.11: “We therefore propose to define actuarial work as work:

1) which involves the exercise of judgement and where the use of principles and/or techniques of actuarial science is central; or

2) which the user is entitled to treat as actuarial work because it is presented as actuarial, whether expressly or by implication.”

It is sensible to suggest that a practical definition of actuarial work is required.

The proposed definition of actuarial work is broad. On a day-to-day basis a number of areas of the business will involve judgement and actuaries may or may not be involved. This definition widens the scope of TAS 100 materially.

Perhaps by reordering the wording in (1) this helps? A possible change may be:

“We therefore propose to define actuarial work as work:

1) which the use of principles and/or techniques of actuarial science is central and which includes the exercise of judgement;

2) which the user is entitled to treat as actuarial work because it is presented as actuarial, whether expressly or by implication.”

It would also be good to draw attention to the importance of applying a proportional and pragmatic approach within the definition. This would add value to users of actuarial work.

Question 4.3 Do you agree with the analysis of different areas of work in Appendix E?

We would query the reason for examples E13 and E24 being out of scope.

Question 5.2 Do you agree with the proposed provisions in TAS 100 on data (Appendix B)?

Paragraph 5.3: “Data used in actuarial work shall be sufficient and reliable for the purpose of that work and subject to sufficient scrutiny and checking so that users can rely on the resulting actuarial information.”

In an ideal world this is true. It should be recognised that there are times when there is no data and alternative assumptions/sources are required along with the application of suitable judgement. In this situation data may not be “sufficient and reliable” as there is no data. The approach taken and assumptions made in this instance should be documented.

Appendix B 2.4 “Communications shall describe the data used in the actuarial work, the source of the data, the checks and controls that have been applied, the actions taken to improve insufficient or unreliable data, any uncertainty in the data, and the approach taken to deal with that uncertainty.”

It should be recognised that documenting “any uncertainty in the data” may not be possible. It would be useful to clarify which uncertainties are being referred to here – for example is it the understanding of the data and associated definitions or is it similar to “events not in the data” or both. Depending on the definition it may be more appropriate to say reasonably foreseeable or recognised uncertainties? For some analyses data may not be available and judgement will be required (and should of course be documented).

Question 5.3 Do you agree with the proposed provisions in TAS 100 on assumptions (Appendix B)?

Appendix B 3.4 “Communications shall state the material assumptions and describe their rationale. Communications shall include a comparison of the assumptions with those used in

any relevant previous actuarial work with an explanation of any differences, and description of any change in the rationale underlying the assumptions used.”

It is not clear whether the “comparison of the assumptions” includes all assumptions or material assumptions – presumably the latter. It would be good to clarify this.

Question 5.5 Do you agree with the proposed provisions in TAS 100 on communications (Appendix B)?

Appendix B 5.7 “Communications shall:

- i indicate the nature and extent of any material uncertainty in the actuarial information they contain; and*
- i state the nature and significance of each material risk or uncertainty faced by the entity in relation to the actuarial work and explain the approach taken to the risk.”*

The word “any” implies that it would be all of the uncertainties. In reality an uncertainty may arise in the future which is material but which could not reasonably have been recognised at the time of the communication based on the available information at that date.

Question 5.11 Do you have any other comments on the exposure draft of TAS 100?

Paragraph 5.12: “Actuarial work often uses specialised methods. Actuarial information may also be subject to significant uncertainty. In order that users can understand the resulting actuarial information and take informed decisions, they need to have clear, comprehensive and comprehensible communications. The proposed high-level principle reflects these requirements of communications of the results of actuarial work. It is derived from the purpose stated in paragraph A.1 of TAS R.”

“... they (users) need to have clear, comprehensive and comprehensible communications.”
We agree that the users need to understand what is presented to them. The word “comprehensive” could be interpreted as requiring a large amount of detail which may obscure the key messages for the user.

An alternative suggestion would be “[they need to have clear, appropriate and understandable communications appropriate for the audience.](#)”

Paragraph 5.14: “We consider that the existence and preparation of documentation affects the quality of the information that is provided to users, and that requirements that some matters be documented are therefore desirable and proportionate.”

The reference to proportionality is key. It is important the main messages are not obscured by the volume of documentation.

Paragraph 5.15: “In many cases the main purpose of documentation is to establish an audit trail for future practitioners. Therefore, if documentation is required (for example on the data, assumptions, and models used in the actuarial work), we consider that the level of documentation should be sufficient for a technically competent person with no previous knowledge of the actuarial work to understand the matters involved and assess the judgements made. We have therefore included this wording, which is consistent with the documentation principle in the existing TASs.”

The purpose of the documentation in this instance is not necessarily the same as for the other users of the actuarial information who may be making decisions. The documentation required for another practitioner to be able to understand the matters involved and assess the judgements made will require a different level of detail.

Question 8.1 Do you agree that TAS 100 could be applied to a wide range of actuarial work without disproportionate costs?

We disagree. As noted in the comments about the extension of the scope we believe there will be increased monetary costs and also actuarial resources will be tied up perhaps meaning that other areas of work are not carried out as a result.