



BOARD FOR ACTUARIAL STANDARDS

INSURANCE TECHNICAL ACTUARIAL STANDARD

**ANALYSIS OF RESPONSES TO THE APRIL 2010
EXPOSURE DRAFT**

NOVEMBER 2010

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PART I

ANALYSIS OF RESPONSES TO THE APRIL 2010 EXPOSURE DRAFT OF THE INSURANCE TECHNICAL ACTUARIAL STANDARD

1 INTRODUCTION

CONSULTATION AND RESPONSES

- 1.1 The Board for Actuarial Standards (BAS) is responsible for setting technical actuarial standards in the UK: it is an operating body of the Financial Reporting Council (the FRC)¹. In April 2010, it published an exposure draft of its Specific Technical Actuarial Standard (Specific TAS)² on Insurance (the Insurance TAS).
- 1.2 The consultation period ended on 16 July 2010. A total of 19 public responses³ were received (see Appendix B). 14 of the responses were from actuarial firms, insurance companies and individual actuaries. Two responses were from professional bodies. Three responses were from representative bodies of insurers. We also received several confidential responses. In addition, the FRC's Actuarial User Committee provided input to the consultation. After the consultation closed we met with a number of practitioners and users to discuss specific points relating to the responses. We thank all those who contributed.

SUMMARY

- 1.3 In finalising the text of the Insurance TAS we have taken account of the comments we received in response to the exposure draft, as well as other comments that have been made to us in meetings. We have also considered the responses to other consultations.
- 1.4 As a result, we have removed some principles which we considered were already adequately covered by the principles in the Generic TASs, especially those concerning the reporting of the risks and uncertainties to users. We have amended the text of other principles in order to improve clarity.
- 1.5 Respondents to the exposure draft generally supported the direction of the draft and the principles proposed in it. There were however, three substantive areas of concern:
- There was demand from practitioners for more clarity on what constitutes actuarial work. Although the precise delineation will always remain a matter for professional judgement, we have nevertheless added text which is intended to clarify our intentions. Further background to our thinking is contained in *Insurance Technical Actuarial Standard: Significant Considerations*, which is being published at the same time as the Insurance TAS.

¹ The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.

² See section 8 of the BAS's *Scope & Authority of Technical Standards*.

³ The responses are available at <http://www.frc.org.uk/bas/publications/pub2248.html>.

- Many respondents were concerned about the extension of scope beyond Reserved Work. This concern reflected a perception of a significant new burden being placed on actuaries in order both to comply with and to demonstrate compliance with the TASs. Some respondents suggested that users did not want or need all the information that the TASs required, particularly with regard to the risk and uncertainty that attach to much actuarial information. They justified this by referring to the expertise of users. Others were concerned about the additional costs that might arise which might encourage users to use alternative resources not required to apply TASs. We do not fully accept these arguments as we expect the TASs to be applied proportionately. We have added text to confirm that a proportionate response should take account of the expertise and needs of users. Further background to our thinking is contained in *Insurance Technical Actuarial Standard: Significant Considerations*.
 - Practitioners and users operating in the London Market were particularly concerned about the inclusion of pricing within the scope of the Insurance TAS. Their concern reflected the transactional nature of much pricing work in the London Market, as well as the role of the actuary in the underwriting team. We accept their concerns and have modified the TAS to make it clear that we want to include only actuarial work in pricing that concerns the governance of the pricing process or that concerns any single insurance contract that is a significant risk to the insurer.
- 1.6 Section 2 of this paper covers the major issues raised in response to the consultation as well as some general points. Section 3 explains the changes that we have made to the text that appeared in the exposure draft. Section 4 considers the transition from the adopted guidance notes.
- 1.7 Part II contains the final version of the Insurance TAS, marked up to show changes from the exposure draft.

ASSESSMENT OF COSTS AND BENEFITS

- 1.8 Section 6 of the exposure draft presented our assessment of the costs and benefits associated with the introduction of the Insurance TAS. We thought that compliance with the TASs would not increase the costs of actuarial work relating to the determination of technical provisions and regulatory capital. However, we accepted that there might be some additional costs relating to other work, particularly for smaller exercises. We also expected that the cost of transition to the TASs would be small in relation to the total costs incurred by insurers on actuarial work each year. We considered that the benefits would justify any additional costs.
- 1.9 Practitioners generally agreed with our assessment of the costs of complying with the TASs for the determination of technical provisions and the assessment of regulatory capital. However many practitioners thought that the costs of compliance would be more significant for other work than we had estimated. A number of respondents were concerned that increased costs would reduce the willingness of users to commission members of the Institute and Faculty of Actuaries to provide actuarial information. The cause of the additional costs was the perceived need for practitioners to be able to prove compliance with each one of the requirements contained in the TASs.

- 1.10 We do not accept this view. The *Scope & Authority* states that departures from TASs which do not have a material effect on users' decisions are not to be considered as departures. For many smaller exercises we consider that most reports will only need to cover a limited number of material matters. For some exercises which are based on standard procedures it might only be necessary to report any material departures from the standard procedures.
- 1.11 It is also likely that many users will be expert in insurance. We consider that a proportionate response to any reporting requirements should reflect the expertise of the intended users.
- 1.12 Some practitioners suggested that the transition costs would be higher than we anticipated, citing their experience of considering the application of the Generic TASs on Data and Reporting to the half year regulatory reporting at 30 June 2010. Although the Insurance TAS extends the scope of actuarial work concerning insurance business that will be subject to TASs we believe that the experience gained in implementing the TASs for Reserved Work will be useful in limiting the transition costs associated with this widening of scope.

COMMENCEMENT DATE

- 1.13 In the exposure draft we proposed that the Insurance TAS should apply to work within its scope performed for aggregate reports completed on or after 1 April 2011.
- 1.14 Some respondents thought that the proposed commencement date was reasonable provided that the TAS was published promptly (with at least six months from date of publication to the effective date) and without significant changes from the exposure draft. Others suggested that up to a year should elapse between issuing the TAS and its commencement, to allow for procedures to be modified.
- 1.15 Other respondents were concerned that the work required to ensure compliance with the Insurance TAS would divert already hard pressed actuarial resources away from work on Solvency II. Many of these respondents argued that the commencement date should coincide with the implementation date of the Solvency II regime, which is likely to be 1 January 2013.
- 1.16 We understand the pressures that insurers and their actuarial teams are under as a result of the introduction of Solvency II. This pressure is likely to be further increased as a result of the IASB's proposed changes in accounting for insurance contracts. However, we consider that complying with the TASs will not impose significant additional burdens on insurers and their actuaries. Indeed the purpose of the TAS is to enhance the governance of insurers through the provision of sufficient, relevant and comprehensible actuarial information including information on risk and uncertainty. Compliance with TASs should, therefore, support the work to meet the requirements of Solvency II.

- 1.17 Some respondents suggested that there should be staggered commencement dates. They suggested that work related to financial and regulatory reporting might be brought within the scope of the TASs from an early date and that other work should only become subject to TASs after two or three years. This would enable practitioners to become familiar with the new requirements before they were required to apply TASs across a broader range of their work.
- 1.18 We consider that all the work within the scope of the Insurance TAS is equally important to the good governance of insurers. We therefore do not consider that delaying the implementation of the TASs for some of this work is appropriate.
- 1.19 The TAS will apply to work within its scope for which the aggregate report is completed on or after 1 October 2011. This is over 10 months after the TAS is issued. We consider that this should give practitioners sufficient time to ensure that systems and procedures are modified to ensure that work within the scope of the TAS can be performed in compliance with the TAS regime.

REVIEW OF THE INSURANCE TAS

- 1.20 We recognise that our TASs may need amendment after they have been in operation for a period. We are developing mechanisms to obtain feedback from practitioners and users of actuarial information, and will conduct a formal review of each TAS at least every four years. At least every two years we will consider whether immediate changes are required.

2 RESPONSES TO THE EXPOSURE DRAFT

INTRODUCTION

2.1 This section summarises some of the most significant comments that we received on the exposure draft, and our reactions to them. In considering the responses, we have carefully considered the feedback from both users and practitioners. In brief:

- Respondents felt that there was too much uncertainty about what constitutes actuarial work for the purpose of determining whether work is within the scope of the Insurance TAS.
- Many respondents expressed reservations about the wide scope and in particular the inclusion of work concerning audit, pricing, financial projections used in business planning and management information.
- Some respondents felt that some of the general principles were covered by the Generic TASs, particularly those concerning risk and uncertainty.

DEFINITION OF ACTUARIAL WORK AND ACTUARIAL INFORMATION

2.2 Several practitioners thought that the proposed text was insufficiently clear about what constitutes actuarial work and actuarial information. They wanted examples of what work is within the scope of the TAS and what work is not.

2.3 Two respondents suggested that a natural definition of actuarial work was work performed by an actuary. We disagree. Actuaries sometimes take on roles which are clearly not actuarial, and which do not involve performing actuarial work.

2.4 For example, an actuary might become a mathematics teacher but the teaching of mathematics is not actuarial work. Similarly, an actuary might be the CEO or CFO of an insurer. Work such as ensuring the insurer's organisational framework and personnel are aligned to the achievement of the strategic objectives set by the insurer's board is not actuarial work, although it is work performed by CEOs, nor is much of the work involved in preparing true and fair financial statements, although it is the responsibility of CFOs. Even the actuarial work for financial statements, such as determining technical provisions and certain other balance sheet items, may be the responsibility of actuaries other than the CFO.

2.5 The TAS includes a description of some of the factors that might be taken into account when determining whether work is actuarial work (paragraph B.1.4). In addition the TAS includes examples of work that is and work that is not actuarial work.

- 2.6 We consider that the key test is whether it is reasonable for any of the intended users to expect the work to involve the application of actuarial techniques. Criteria that might be used to judge whether work is actuarial work include:
- If users are relying on the fact that the work requires actuarial skills – for example modelling work which involves mortality or discounting, or aspects of a role which is reserved to actuaries – and the work is therefore commonly performed by actuaries (see paragraph 11 of the *Scope & Authority*), it is actuarial work.
 - If the work is presented (for example in a report) as actuarial, or as involving the use of actuarial techniques, other than through an incidental reference, it is actuarial work.
 - If users understand that work has been done by an actuary acting in a professional actuarial capacity, it is actuarial work.
- 2.7 Inevitably there will be some pieces of work which do not precisely fit these criteria and about which judgement will be required. However, we consider that the decision whether such work is actuarial work or not rests with the intended users. If an actuary has doubts over whether the work they are required to do is actuarial work then they should ask for clarification from the intended users.
- 2.8 Part C sets out the scope of the Insurance TAS. Some of the areas of work are very broad, such as work done to enable an insurer to prepare its true and fair financial statements or work done to meet its regulatory obligations. In these cases we have given some examples of actuarial work which is within the scope of the TAS. These lists are not exhaustive.
- 2.9 The *Significant Considerations* document gives further detail of our thinking.

SCOPE

Non-Reserved Work

- 2.10 A few respondents felt that the scope of the Insurance TAS should, at least initially, be restricted to Reserved Work. This view was expressed by both insurers employing actuaries and practitioners employed by insurers. Although the respondents supported our view that users should be able to place a high degree of reliance on actuarial information they were concerned about the potential costs, because of a perceived need to demonstrate compliance. They were concerned that it would not always be possible to meet users' needs for speed, cost and conciseness.
- 2.11 One respondent suggested that the option that users have to decide whether or not TASs should apply to work that is not Required Work be extended to Required but not Reserved Work. Another suggestion was that the application of the TASs to work that is not Reserved Work should be deferred for a period long enough for practitioners to become accustomed to their application.

- 2.12 We consider that if the scope of the TAS was limited to Reserved Work it would be too narrow. The TAS would not cover any work in general insurance other than work performed by the syndicate actuary for Lloyd's syndicates. Nor would it cover much of the actuarial work supporting the true and fair financial statements, the determination of embedded values published in supplementary information for shareholders of long-term insurers, M&A concerning insurers and pricing insurance business. We consider that in all these areas actuarial work makes a major contribution to users' decisions and that poor decisions can have a significant financial impact.
- 2.13 Our view is supported by the Solvency II directive which recognises the importance of the application of actuarial techniques in determining technical provisions, pricing and reinsurance across the whole spectrum of insurance business in its definition of the role and responsibilities of the Actuarial Function. The work for which the Solvency II Actuarial Function is responsible is not Reserved Work as there is no requirement for it to be performed by actuaries. Solvency II requires only competence in actuarial mathematics and an ability to demonstrate relevant experience with applicable professional and other standards.
- 2.14 We therefore consider that the scope of the Insurance TAS should extend beyond Reserved Work to include work concerning insurance business that has a significant financial impact.
- 2.15 Some respondents felt that the TASs would impose a significant documentation and reporting burden. We do not accept this. The *Scope & Authority* requires only that principles in the TASs are followed if they are material. In addition, they should be applied in a proportionate manner as explained in paragraph B.1.3 of the Insurance TAS. Paragraph B.1.3 applies to work performed in order to demonstrate compliance as well as to work performed in order to comply with the TAS.
- 2.16 The mechanism of component reports means that information does not have to be repeated, thus reducing the reporting burden. The aggregate report providing the information relevant to a particular decision can refer to actuarial information provided in an earlier report. For example, if the information results from applying a standard procedure using measures, methods and assumptions that have previously been reported to users, then it would be proportionate to report only on any exceptions to the standard procedure.

Auditing

- 2.17 Respondents from audit firms were concerned that there might be a risk of inconsistent standards being set by the Auditing Practices Board (APB) and the BAS. Auditors' experts employed by audit firms are subject to the APB's standards although third party actuaries are not. We discussed this risk with the APB and concluded that our standards are consistent with the international standards on auditing applicable to the audit of insurers in the United Kingdom and the associated practice note. Although we recognise it is possible that standards might diverge in the future we consider the risk is small and manageable.

- 2.18 There was some confusion about whether the proposed scope included work performed by the auditor's expert providing information to the auditor of an insurer's financial statements. In developing our *Conceptual Framework* we concluded that monitoring the work of another actuary should not be covered by our standards. Some respondents used this conclusion to infer that work performed by an auditor's expert was outside the scope of the Insurance TAS. We consider the work of the auditor's expert involves not only monitoring another actuary's work, but also at least commenting on the significant actuarial judgements such as the methods and assumptions used in producing the actuarial information provided to the board and management of the insurer. It sometimes also involves more substantive work enabling the auditor to develop their own estimate or range of estimates to evaluate the insurer's estimates.
- 2.19 We have amended the wording of the TAS to make it clear that actuarial work performed by an auditor's expert is within the scope of the TAS.
- 2.20 One respondent was concerned that the TAS would require an expert to do work beyond the scope of the work required by the auditor. The TASs do not require work to be done, but set standards for work that is done. The example given by the respondent concerned discount rates: the exposure draft required reports on exercises which require the use of a discount rate to explain their derivation and the implications of their use. We do not consider that a review is an exercise requiring the use of a discount rate if it is limited to reviewing the insurer's actuary's recommended discount rates. However, if a review includes an independent calculation of the amount of the technical provisions we consider that the principle relating to discount rates should apply. We have amended the wording of paragraphs D.2.9, D.2.12 and D.4.1 to make it clear that they apply to substantive work only.

Pricing in the London Market

- 2.21 Actuaries working in the London Market and users of their work were particularly concerned about the application of TASs to the work actuaries do on the pricing of the risks presented to the users. Both actuaries and users were concerned that the documentation and reporting required by the TASs would reduce productivity and impair actuaries' relationships with underwriters (who are normally experienced in the risks and uncertainties relating to the insurance risks being priced). The actuarial work these actuaries perform on a day to day basis is material because it could, and usually will, influence underwriters' pricing decisions. However, many of the individual risks to which the actuarial work relates are not significant in the context of the risk appetite of the insurer for whom the actuary and the underwriter are working. We agree that day to day pricing activity or commercial decisions about the price to be charged for particular risks or groups of risks need not be within the scope of the TAS if they are not significant to the insurer.

- 2.22 However, we consider that, as adequate pricing is vital to the maintenance of an insurer as a going concern, actuarial work that supports good governance of the pricing process should be within the scope of the TAS. Actuarial information used by an insurer's management and governing body to set pricing standards that underwriters and those responsible for new business apply is therefore within the scope of the TASs. This includes the information supporting the selection of measures, methods and assumptions to be used in determining premium rates or product charges. Actuarial work developing models that are widely applied to calculate premium rates or product charges consistent with the standards set by management is also within the scope of the TAS (see paragraphs C.1.12 and C.1.13).
- 2.23 Some respondents suggested that actuarial work supporting pricing decisions on one-off risks that have the potential to have a significant impact on an insurer should be included within the scope of the TAS. This is consistent with our view that the scope should include actuarial work that has a significant financial impact on an insurer, and paragraph C.1.14 addresses the point.
- 2.24 Some respondents were concerned about the applicability of TASs to work performed by members of a pricing team in preparing actuarial information used by another actuary to produce recommendations on pricing to an insurer's management. Actuaries are required to apply the TASs only to the extent that they are responsible for the work within the scope of a TAS⁴. We consider that it is the actuary producing the pricing recommendations to management who is responsible for the work rather than the team members reporting to them. It is the responsible actuary's obligation to ensure that actuarial information provided to management to enable them to make pricing decisions complies with TASs.

Business planning and management information

- 2.25 A number of respondents expressed concern about the inclusion of actuarial work supporting the production of financial projections used in business planning and management information. The arguments put forward included:
- actuarial work is only a part of and sometimes just a small part of the total work;
 - actuaries do not control the information that is supplied to users;
 - in business planning the critical assumptions are not actuarial assumptions;
 - the users already understand the risks and uncertainty in the information; and
 - timeliness is important and there is a risk that the need to prove compliance might delay the work.

⁴ *Scope & Authority* paragraphs 25 to 28.

- 2.26 We agree with the first three points and this work is not within the scope of the TAS.
- 2.27 However, we disagree with the last two points. In particular, we disagree that the need to prove compliance might delay the work. Our standards do not require documentation or reporting to be repeated every time information is produced or revised. For example, information on risk and uncertainty might be contained in a single component report which need be provided to users only once.

GENERAL PRINCIPLES

Assumptions

- 2.28 A number of respondents observed that in many situations there is little or no information on which to base assumptions, and argued that the principle requiring assumptions to be based on sufficient relevant information was therefore inappropriate. We agree, and have redrafted the principle to allow for situations in which insufficient information is available.
- 2.29 Many respondents felt that adjusting one assumption to compensate for shortcomings in another unrelated assumption was a valuable technique in some circumstances. They thought, for example, that it might be proportionate to adjust an unrelated assumption for a known shortcoming of a model which did not allow for a material assumption adequately, rather than delaying the work in order to develop a better model. It was also argued that the proposed principle was too prescriptive.
- 2.30 We consider that using inappropriate assumptions to cover up for known inadequacies in other unrelated assumptions confuses users and reduces transparency. In particular, adjusting the discount rate to compensate for shortcomings in a wide variety of other unrelated assumptions is unlikely to be easy to explain clearly.
- 2.31 An explicit adjustment to the results is, we consider, more transparent and usually more comprehensible than an adjustment to another unrelated assumption. This approach is also consistent with the reasoning underlying the requirement in the Generic TAS on *Modelling* (TAS M) that users are made aware of material limitations in models and their implications. The *Significant Considerations* document gives further detail of our thinking.

Reporting

- 2.32 A number of respondents considered that the proposed requirement to demonstrate the effects of uncertainty by considering the impact of adverse scenarios on cash flows was unduly prescriptive. We agree, and have not included this principle in the TAS. We consider the point is adequately covered by our Generic TAS on *Reporting Actuarial Information* (TAS R) which requires aggregate reports to state the nature and extent of material uncertainties⁵ and indicate the nature of future cash flows including their timing⁶. TAS R gives examples of how this uncertainty might be indicated, including the use of sensitivity tests, scenario tests, considering VaRs and confidence intervals⁷.
- 2.33 Several respondents suggested that liquidity risk did not deserve to be individually recognised in the TAS when other risks that were often more significant for insurers were not. We agree, and have not included the principle in the TAS. We consider that the reporting of risk is adequately covered in TAS R, which requires a statement of the nature and significance of each material risk (in relation to the work being reported on) and an explanation of the approach taken to it⁸.

⁵ TAS R paragraph C.5.2.

⁶ TAS R paragraph C.5.10.

⁷ TAS R paragraph C.5.4.

⁸ TAS R paragraph C.5.5.

3 CHANGES TO THE TEXT

INTRODUCTION

- 3.1 As a result of the responses we received to the exposure draft, and comments we have received in other contexts, we have made a number of changes to the text in the exposure draft. Some changes have been made to ensure consistency with the Pensions TAS which was issued in October 2010. The changes made are described in this section. Part II contains a version of the final text that shows the changes from the text in the exposure draft. Changes to paragraph numbering are not shown.
- 3.2 We are publishing a separate document *Insurance Technical Actuarial Standard: Significant Considerations*, explaining the development of the Insurance TAS, including the significant considerations underlying the principles.
- 3.3 A number of minor changes have been made throughout the text in order to add clarity. They are not described individually in this section.
- 3.4 All references in this section are to the final version of the Insurance TAS, unless stated otherwise.

Introductory rubric

- 3.5 A reference to the *Significant Considerations* paper has been added to the section on the status of the TAS.
- 3.6 The commencement date has been changed to 1 October 2011 and its specification has been amended to make it clear that it applies to both Reserved Work and aggregate reports completed on or after that date.
- 3.7 The description of the relationship with other TASs has been amended to make it clear that Generic TASs apply to all work within the scope of the Insurance TAS.

PART A: PURPOSE

Purpose

- 3.8 Paragraph A.1.2 has been amended to make it clear that it is actuarial information with which the TAS is concerned. The third bullet point has been amended for consistency with the Pensions TAS.

PART B: INTERPRETATION

- 3.9 Paragraph B.1.3 has been extended to emphasise that proportionality is a matter for judgement, and to give some examples of matters that might be taken into account when making that judgement. Paragraph B.1.4 has been included to explain what might constitute actuarial work for the purpose of the Insurance TAS.

Definitions

- 3.10 A definition of the term “insurance business” has been introduced. This enables some actuarial work performed for insurers’ parent undertakings to be brought within the scope of the TAS.
- 3.11 The definition of “insurance transformations” has been amended to clarify that it includes changes to the principles contained in an insurer’s Principles and Practices of Financial Management.
- 3.12 Other definitions have been amended for consistency with the definitions in other TASs.

PART C: SCOPE

- 3.13 Paragraph C.1.5 has been amended to apply only to substantive actuarial work performed for insurers and – if they are part of a group – their parent undertakings, that enables them to prepare their financial statements.
- 3.14 Paragraphs C.1.7 and C.1.9 have been amended to include actuarial work performed to enable insurers’ parent undertakings to meet their regulatory obligations and embedded value reporting requirements.
- 3.15 Paragraph C.1.8 has been expanded to include the opinions on the underwriting policy and the adequacy of reinsurance arrangements that are required under the Solvency II Directive. In the exposure draft this work was identified separately⁹.
- 3.16 Paragraph C.1.11 has been extended to include actuarial work performed for the auditor on an insurer’s, and its parent undertakings’, financial statements and regulatory returns. It has been amended to make it clear that it applies only to actuarial work performed by the auditor’s expert.
- 3.17 Paragraphs C.1.12 to C.1.15 have been amended to clarify what actuarial work in pricing is within the scope.
- 3.18 We have deleted the paragraphs in the exposure draft covering actuarial work supporting the production of financial information for business planning¹⁰ and the production of management information¹¹.
- 3.19 We have amended paragraph C.1.18 to clarify that it is only actuarial work concerning insurance business M&A that is within the scope of the TAS.

⁹ Exposure draft paragraph C.1.11.

¹⁰ Exposure draft paragraph C.1.16.

¹¹ Exposure draft paragraph C.1.17.

PART D: GENERAL PRINCIPLES

Judgement

- 3.20 Paragraph D.1.4 has been added. It states that the TAS does not require the documentation or disclosure of judgements concerning its application to work within the scope of the standard unless stated otherwise. This is consistent with judgements required concerning the application of other TASs.

Assumptions

- 3.21 Paragraph D.2.1 has been added to clarify that paragraphs D.2.2, D.2.3 and D.2.8 (use of assumptions in models and adjustments to assumptions for shortcomings in models concerning an unrelated assumption) do not apply when assumptions are determined by the user. This is consistent with the Pensions TAS.
- 3.22 Paragraph D.2.3 has been modified to allow for the circumstance in which there is insufficient relevant information available from which to derive assumptions. Paragraphs D.2.5 and D.2.6 have been added to cover the situations in which there is either substantial relevant information or limited relevant information available for the derivation of assumptions.
- 3.23 Paragraph D.2.8 of the exposure draft repeated text from TAS R which covered the situation when assumptions are specified by a user or by regulation and are materially inappropriate. This paragraph has not been included in the TAS, but a similar point is made in the *Significant Considerations* document.
- 3.24 Paragraph D.2.9 has been amended to make it clear that it applies only to substantive work requiring the determination of present values of cash flows. It does not apply to work which is limited to a review of the discount rates used by an insurer in determining present values of cash flows.
- 3.25 Paragraph D.2.12 (making claim rates assumptions) has been amended to clarify that it applies only to work which requires claims to be projected over a number of years. When claim rates are required only for a single period there is no need for assumptions to be made for future changes to claim rates. In addition, "future changes to claim rates" has been changed to "subsequent changes to claim rates". This change has been made because adjustments to claim rates can relate to the period from the time when the claim rates were established to the present date and are therefore not "future changes".
- 3.26 Paragraph D.2.14 (low probability events with a significant financial impact) has been amended to limit the range of future events that need to be considered. The list in the exposure draft¹² of the type of events that might be considered has been deleted.
- 3.27 Paragraph D.2.18 (co-dependencies of risks) has been amended to reflect the usual expectation that co-dependencies will change in stressed scenarios.

¹² Exposure draft paragraph D.2.17.

Models and calculations

- 3.28 In paragraph D.3.1 (explaining the rationale for changes to measures, methods and assumptions) “similar exercises” has been changed to “similar and related exercises”. Paragraph D.3.2 explains what exercises might be similar and related.
- 3.29 Paragraph D.3.3 of the exposure draft repeated text from TAS M which requires the documentation of the explanation of how a model is a satisfactory representation of some aspect of the world in the context of the purpose for which it is being used¹³. This paragraph has not been included in the TAS, but a similar point is made in the *Significant Considerations* document.

Reporting

- 3.30 Paragraph D.4.1 has been amended to clarify that it applies to substantive work supporting the determination of a prudent estimate of an insurer’s technical provisions. It does not apply to work limited to the review of those provisions.
- 3.31 Paragraph D.4.3 of the exposure draft repeated text from TAS R requiring aggregate reports to state the nature and significance of each material risk and to explain the approach taken to the risk¹⁴. This paragraph has not been included in the TAS, but a similar point is made in the *Significant Considerations* document.
- 3.32 Paragraphs D.4.4 and D.4.5 of the exposure draft required the effect of uncertainty in cash flows to be indicated by considering adverse scenarios and provided examples of how this indication might be provided. They have not been included in the TAS for the reasons given in paragraph 2.32.
- 3.33 Paragraphs D.4.6 and D.4.7 of the exposure draft required aggregate reports to include an indication of the extent of any liquidity risk in work supporting the assessment of regulatory capital and provided examples of how this indication might be provided. They have not been included in the TAS for the reasons given in paragraph 2.33.
- 3.34 Paragraphs D.4.8 to D.4.11 of the exposure draft applied to work supporting information provided to preparers and auditors of financial statements. They have not been included in the TAS because we consider that the principles within the Generic TASs already cover their requirements. TAS M requires that material limitations of models and their implications are explained to users¹⁵. TAS R requires that any material uncertainty in the data is explained to users¹⁶.

¹³ TAS M paragraph C.3.1.

¹⁴ TAS R paragraph C.5.5.

¹⁵ TAS M paragraph C.5.8.

¹⁶ TAS R paragraph C.4.3.

4 TRANSITION FROM THE ADOPTED GUIDANCE NOTES

INTRODUCTION

- 4.1 Section 5 of the exposure draft described our intention that the adopted Guidance Notes (GNs) in the insurance area would cease to apply when the Insurance TAS becomes effective. No respondents commented on this proposal.
- 4.2 *GN12: General Insurance Business: Actuarial Reports* covers matters concerning reporting for some general insurance work. There is some work to which both GN12 and TAS R apply. We are therefore amending GN12 so that it is possible to comply with it by complying with the Insurance and Generic TASs. The amended version of GN12 is being issued simultaneously with the Insurance TAS, and takes effect from 1 December 2010. A paragraph has been inserted at the end of the section on “Application” and the “Reminder to members” at the start of the GN now refers to TASs and the Actuaries’ Code. Some other minor amendments have been made in Section 1 to reflect the replacement of the Professional Conduct Standards by the Actuaries’ Code and the merger of the Faculty of Actuaries and the Institute of Actuaries. As stated in paragraph 4.4 we intend to withdraw GN12 with effect from 1 October 2011.
- 4.3 We intend to withdraw *GN33: Actuarial Reporting for Lloyd’s Syndicates writing US Business* with effect from 15 December 2010 as it covers work outside the geographic scope of TASs. The work will be covered by an Actuarial Profession Standard (APS).
- 4.4 We intend to withdraw the following adopted GNs with effect from 1 October 2011:
- *GN1: The Prudential Supervision in the UK of Long-Term Insurance Business;*
 - *GN2: Financial Condition Reports;*
 - *GN7: The Role of Actuaries in Relation to the Financial Statements of Insurers and Insurance Groups writing Long-term Business and their Relationship with Auditors;*
 - *GN8: Additional Guidance on valuation of long-term insurance business;*
 - *GN12: General Insurance Business: Actuarial Reports;*
 - *GN18: Actuarial Reporting for U.K. General Insurance Companies writing US Regulated Business;*
 - *GN20: Actuarial Reporting under the Lloyd’s Valuation of Liabilities Rules;*
 - *GN23: Life Insurance Company Takeovers;*
 - *GN40: The Role of the Actuarial Function Holder;*
 - *GN41: The Role of the With-Profits Actuary;*

- GN43: *The Role of the Appropriate Actuary;*
- GN44: *Mathematical Reserves and Resilience Capital Requirement;*
- GN45: *Determining the With-Profits Insurance Capital Component;*
- GN46: *Individual Capital Assessment;*
- GN47: *Stochastic Modelling of Economic Risks in Life Insurance; and*
- GN50: *General Insurance Principles and Practice.*

PART II

TRACKED CHANGES FROM THE APRIL 2010 EXPOSURE DRAFT OF THE INSURANCE TECHNICAL ACTUARIAL STANDARD

A MEMBERS OF THE BOARD FOR ACTUARIAL STANDARDS

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Observers

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Seamus Creedon (A)	Groupe Consultatif Actuariel Européen
Richard Maconachie	The Actuarial Profession
Will Price	The Pensions Regulator
Paul Sharma	Financial Services Authority
James Templeton	H M Treasury

“A” denotes a Fellow of the Institute and Faculty of Actuaries

B LIST OF RESPONDENTS TO THE APRIL 2010 EXPOSURE DRAFT

Professional and trade bodies

The Actuarial Profession

Association of British Insurers

The Institute of Chartered
Accountants in England and Wales

Investment and Life Assurance Group

Lloyd's Market Association

Insurers, consultants and actuaries

Neil Bruce

Chaucer Syndicates

Deloitte

Hiscox Insurance Company Ltd

Hiscox Syndicates Ltd

Tony Jones and others

Tom Jowett

Lane Clark & Peacock

Legal & General

Markel International

Phoenix Life Holdings

PricewaterhouseCoopers

Prudential

Standard Life