Dear TAS review team

FRC consultation on specific Technical Actuarial Standards (TAS)

We welcome the opportunity to comment on the FRC’s consultation Revised Specific TASs, May 2016 (“the Consultation”). This is in regards to the framework for TASs and the proposed introduction of TAS 200 and TAS 300.

Overarching comments

In addition to our replies to the questions in the Consultation (see appendix), we also have overarching comments outlined below.

- We support the proposed introduction of the amended TASs, especially the goal of simplifying them and allowing for proportionality in their application.

- It is important that the scope of the TASs is sufficiently flexible. This is to reflect circumstances where experienced and well informed users of actuarial information have legitimate reasons for certain elements of the TASs not to be applied.

- The amended TASs should first apply to actuarial work commencing on or after 1 July 2017. This will help to remove uncertainty about their applicability to work that commenced earlier, avoiding unnecessary complexity and cost, for actuary and user.

- We provided feedback earlier on the proposed TAS 100 consultation. We have not repeated them here, in the interests of brevity.

- Within TAS 200 and TAS 300 there are no specific references where one actuary is reviewing the work of another actuary. It would be useful to confirm whether this is in or out of scope of the requirements.

- The TAS 200 and TAS 300 exposure drafts both mention that wider adoption is encouraged, but this is not mentioned within the TAS 100 draft. It would be useful to remove this inconsistency.
We hope our comments helpful. If you would like to discuss them in more detail please do not hesitate to contact me, and for the avoidance of any doubt our responses are not confidential.

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APPENDIX: Responses to consultation questions

C.2.1 Do you have any comments on the risk assessment process described in paragraphs 2.2 to 2.15?

We have no specific comments.

C.2.2 Do you have any comments on our proposed approach to risk monitoring (paragraphs 2.16 to 2.21)?

We have no specific comments.

C.3.1 Do you agree that the design principles described in paragraph 3.3 will help to ensure that the Specific TASs form a coherent and risk-focused set of requirements that apply alongside TAS 100?

We agree that the design principles will form a coherent and risk-focused set of requirements.

C.3.2 Do you agree with the proposed style and structure of the revised Specific TASs outlined in paragraphs 3.8 to 3.15?

We agree with the proposed style and structure of the TAS200 and TAS300 documents.

C.3.3 Do you have any comments on the draft Glossary of defined terms used in FRC technical actuarial standards?

We have no specific comments.

C.6.1 Do you have any comments on proposed implementation of the revised Specific TASs?

The amended TASs should first apply to actuarial work commencing on or after 1 July 2017. This will help to remove uncertainty about their applicability to work that commenced earlier, avoiding unnecessary complexity and cost, for actuary and user.

Specific TAS 200

Our answers to the questions in relation to TAS 200 are set out below:

I.1.1 Do you agree that technical actuarial work to support the preparation of the balance sheet for regulatory purposes, (other than technical actuarial work preparing information on an insurer’s pension schemes), should be in the scope of TAS 200?

We agree that this is appropriate to include within the scope of TAS 200.

I.1.2 Do you agree that technical actuarial work to support the provision of an opinion for a Lloyd’s syndicate regarding the claims provisions should be in the scope of TAS 200?

We agree that this is appropriate to include within the scope of TAS 200. We anticipate that Lloyd’s would also expect the report to be provided alongside the actuarial opinion to be compliant with the
TAS 100 requirements (in line with the current arrangements which would expect the report to be compliant with TAS R).

I.1.3 Do you agree that technical actuarial work to support the preparation of financial statements that are intended to give a true and fair view of their financial position and profit and loss (or income and expenditure) for insurers (other than technical actuarial work preparing information on an insurer’s pension schemes) should be in the scope of TAS 200?

We agree that this is appropriate to include within the scope of TAS 200.

I.1.4 Do you agree that technical actuarial work to express an opinion on the insurance liabilities appearing in tax returns for general insurance business under the General Insurers’ Technical Provisions Regulations 2009, should be in the scope of TAS 200?

We agree that this is appropriate to include within the scope of TAS 200. This is also in line with the current arrangements which would expect a TAS-R compliant report to be produced to support the opinion.

I.1.5 Do you agree that technical actuarial work to estimate regulatory capital requirements should be in the scope of TAS 200?

Whilst we believe that this may be appropriate we note that the technical actuarial work will, in some cases, only be a part of the overall work performed to estimate the regulatory capital requirements. Consequently, this may result in practical difficulties for the actuarial element of the work to demonstrate compliance with the TASs.

I.1.6 Do you agree that technical actuarial work undertaken as part of the Solvency II Own Risk and Solvency Assessment (ORSA) should be in the scope of TAS 200?

See response to question I.1.5.

I.1.7 Do you agree that technical actuarial work to support:
– schemes of arrangement;
– Part VII transfers; and
– other transformations should be in the scope of TAS 200?

We believe this is appropriate. However, while work to support Part VII transfers will be within the scope of TAS 200, we note that section 166 Financial Services and Markets Act investigations are not in scope. It would be useful to mention for completeness whether there is a requirement for the actuary to comply with the TASs for such work.

I.1.8 Do you agree that technical actuarial work to support the exercise of discretion concerning with-profits life insurance policies should be in the scope of TAS 200?

We agree that this is appropriate to include within the scope of TAS 200.

I.1.9 Do you agree that technical actuarial work to support the provision of an audit opinion on an insurer’s financial statements should be in the scope of TAS 200?

We believe this is appropriate and in line with the existing TAS regime.
I.1.10 Do you agree that technical actuarial work to support the provision of an auditor’s assurance opinion for regulatory reporting should be in the scope of TAS 200?

We believe this is appropriate and in line with the existing TAS regime.

I.1.11 Do you agree that technical actuarial work to support the development and application of pricing frameworks for products provided by an insurer should be in the scope of TAS 200?

We believe this is appropriate and in line with the existing TAS regime.

I.1.12 Do you agree that technical actuarial work to support individual pricing decisions should not be in the scope of TAS 200?

We agree with the proposal to not include individual pricing decisions within the scope of TAS200.

I.1.13 Do you agree that the other areas of technical actuarial work described in paragraphs 1.35 to 1.42 should not be in the scope of TAS 200?

We have no additional comments.

I.2.1 Do you have any comments on the proposed core provisions?

Within the core provisions there is the comment about judgements: “They must take into account all the risks faced by the entity relevant to the actuarial work …”. In practice it is very difficult for the actuary to determine all the risks faced by the entity as they are likely to only be aware of known risks. We suggest the wording is amended as follows: “They must take into account all the risks faced by the entity relevant to the actuarial work which the actuary is aware of …”

There is no definition of “data proxies”, this may be a useful term to identify in the glossary to avoid confusion.

I.2.2 Do you consider it necessary for the term “best estimate” to be defined?

We do not believe that a definition of “best estimate” is useful. This could be interpreted differently by users of actuarial information. It will be more useful for the actuary to define, within their communications, what their estimates represent.

I.2.3 Do you have any comments on the proposals relating to pricing frameworks?

We have no specific comments.

I.2.4 Do you have any comments on the proposed provisions for regulatory balance sheets?

We have no specific comments.

I.2.5 Do you have any comments on the proposed provisions for financial statements?

We have no specific comments.
I.2.6 Do you consider that TAS 200 should require communications to explain what the term “best estimate” is intended to represent?

Where the term “best estimate” is used we agree that it is reasonable for this to be explained by the actuary in the communication as this will avoid confusion that may arise with the user.

I.2.7 Do you have any comments on the proposed provisions for risk modelling?

While we believe that this may be appropriate, risk modelling work will in some cases only be a part of the overall work performed to estimate the regulatory capital requirements. Consequently, this may result in practical difficulties for the actuarial element of the work to demonstrate compliance with the TASs.

The provision stating that communications shall “describe how the balance sheet being stressed differs from that used for regulatory reporting and why” suggests that there are differences, which may not be the case. This could be restated to “describe any differences between the balance sheet being stressed differs from that used for regulatory reporting”

I.2.8 Do you have any comments on the proposed provisions for insurance transformations?

We have no specific comments.

I.2.9 Do you have any comments on the proposed provisions for with-profits discretion?

We have no specific comments.

I.2.10 Do you have any comments on the proposed provisions for technical actuarial work to support the provision of an auditing opinion?

We have no specific comments.

I.2.11 Do you have any comments on the proposed provisions for technical actuarial work to support the provision of an assurance opinion for regulatory purposes?

We have no specific comments.

I.3.1 Do you agree that the replacement of the Insurance TAS with TAS 200 will not lead to disproportionate costs?

We have not additional comments.

I.3.2 Do you have any comments on our analysis of the impact of the changes set out in section 3?

We have no additional comments
Specific TAS 300

Our answers to the specific questions in the consultation paper are set out below:

P.1.1 Do you agree that technical actuarial work required by legislation to support decisions on contribution requirements or benefit levels should be in the scope of TAS 300?

No, we disagree, these areas are already adequately covered in TAS 100.

P.1.2 Do you agree that technical actuarial work to support employers in fulfilling these duties under section 229(1) of the Pensions Act 2004 should not be in the scope of TAS 300?

Yes, we agree, these areas are already adequately covered in TAS 100.

P.1.3 Do you agree that technical actuarial work relating to the derivation of actuarial factors should be in the scope of TAS 300?

Yes, we agree.

P.1.4 Do you agree that calculations using actuarial factors should not be in the scope of TAS 300?

Yes, we agree.

P.1.5 Do you agree that technical actuarial work concerning incentive exercises should be in the scope of TAS 300?

Yes, we agree, given that incentive exercises are covered in the Code of Good Practise for Incentive Exercises and TAS 300 does not provide conflicting guidance to this Code.

As per paragraph, 1.20 of Annex 2: TAS 300 Pensions, we agree that technical actuarial work for scheme sponsors on scheme modifications which are not incentive exercises (e.g. Pension Increase Exchange exercises) should not be included within TAS 300.

P.1.6 Do you agree that technical actuarial work for a governing body relating to scheme modifications of accrued benefits should be in the scope of TAS 300?

Yes, we agree.

P.1.7 Do you agree that technical actuarial work for scheme sponsors relating to scheme modifications of accrued benefits which are not incentive exercises should not be in the scope of TAS 300?

Yes we agree.
P.1.8 Do you agree that technical actuarial work for a governing body relating to bulk transfers should be in the scope of TAS 300?

Yes, we agree.

P.1.9 Do you agree that technical actuarial work for scheme sponsors relating to bulk transfers should not be in the scope of TAS 300?

Yes, we agree.

P.1.10 Do you agree that the areas of technical actuarial work described above should not be in the scope of TAS 300?

Yes, we agree that pre-acquisition work associated with mergers & acquisitions should not be in the scope of TAS 300.

P.1.11 Are there any areas of technical actuarial work including those described above which respondents consider should be in the scope of TAS 300?

We believe that the scope of TAS 300 should be monitored on an ongoing basis due to any changes (e.g. legislative).

P.2.1 Do you have any comments on the proposed core provisions?

We believe that the risk assessment process should include quantification of any material uncertainty (with details of the underlying data, calculations and any assumptions used) and this should be clearly documented in communication.

P.2.2 Do you have any comments on the proposed provisions for scheme funding and financing?

The requirement for trustees to quantify the level of prudence in their assumptions should be retained, as this will help trustees gauge the appropriateness of the margins for prudence in assumptions.

P.2.3 Do you have any views on whether TAS 300 should contain detailed requirements on the contents of Scheme Funding reports?

We agree that TAS 300 should provide an appropriate level of detail on the requirements for Scheme Funding reports such that a user will be able to understand the various processes underlying the valuation, including how the value of the liabilities were determined.

P.2.4 Do you have any comments on the proposed provision for factors for individual calculations?

We have no specific comments.
P.2.5 Do you agree with the proposed provision for incentive exercises, scheme modifications and bulk transfers?

Yes, we agree.

P.3.1 Do you agree that the replacement of the Pensions TAS with TAS 300 will not lead to disproportionate costs?

Yes, whilst the replacement of the Pension TAS with TAS 300 will lead to some initial costs, we would not expect the overall costs to be disproportionate. We believe that the initial costs can be managed if TAS 300 only applies to work commenced after the implementation date.

P.3.2 Do you have any comments on our analysis of the impact of the changes set out in section 3?

We have no specific comments.

P.4.1 Do you have any comments on the text of the exposure draft of TAS 300?

We have no specific comments.

P.4.2 Do you have any further comments on the proposals in this consultation?

We have no specific comments.