

# TAS post-implementation review - insurance

## Introduction

Following the introduction of the Technical Actuarial Standards (TASs) in 2010-11, we have carried out a post-implementation review to understand how the TASs have affected practitioners and users of actuarial work in insurance. We published the results of a similar review for actuarial work in pensions in August 2013. These reviews will provide essential input to a full review of the TASs in 2014.

## How we approached the review

Since we issued the TASs, we have been collecting feedback through regular contact with stakeholders and queries which we receive. During 2013, we held more structured meetings with stakeholders to get feedback on the impact of the TASs on them. We ran a number of surveys canvassing views from stakeholders in particular geographies or with particular interests. These stakeholders include practitioners, non-executive directors of insurers and regulators.

## Headlines

Key points arising from our review include:

- users consider that reporting has improved either through better focus on material matters or the provision of additional useful information.
- practitioners are generally comfortable with the extent of the scope and content of the TASs although some report difficulties in making judgements on:
  - materiality leading to longer reports and more information being provided to users; and
  - proportionality leading to more detailed work being performed and documented.
- there is some uncertainty concerning what exactly is in the scope of the TASs with a larger than expected proportion of work being reported by some practitioners as not being subject to TASs; and
- there are indications that there is a lack of familiarity with TASs among less experienced practitioners.

## Purpose of the Insurance TAS

In developing and maintaining the TASs, the FRC's objective is that users for whom a piece of actuarial information is created should be able to place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any inherent uncertainty inherent in the information.

The Insurance TAS is intended to support this objective by ensuring that for the actuarial work within its scope:

- managers and boards of insurers are provided with relevant, comprehensible and sufficient actuarial information to support their business decisions, including information on risk and uncertainty and, when relevant, the implications for policyholders;
- actuarial information provided to policyholders is relevant, comprehensible and sufficient for its purpose;

- calculations are carried out using measures, methods and assumptions which are fit for purpose and are performed correctly; and
- the key issues that affect the variability or discounted value of projected cash flows are taken into account and given the appropriate weight.

## Reliability, risk and uncertainty

The principal users of actuarial information say they are generally confident in its reliability and believe they receive adequate information about risk and uncertainty. Some concerns were expressed over the complexity of models and data quality that may lead to errors.

## Materiality and proportionality

Many practitioners said they would welcome further support on the application of materiality and proportionality. Some felt that it is safer to include documentation demonstrating compliance with all the TAS principles. As a result some reports are longer than necessary with both users and practitioners stating that the additional documentation adds little value. Longer reports may result from the use of checklists to confirm compliance and a tendency to consider that all judgements should be documented. TAS R requires that reports should not include immaterial information if it obscures material information<sup>1</sup>. Judgements concerning the application of the TASs are not generally required to be documented<sup>2</sup>.

Some practitioners are concerned that the TASs require a disproportionate amount of work particularly for smaller exercises. Even though the report to the user might not be much longer because of the TAS requirements, there is additional work from creating documentation to demonstrate compliance. For smaller exercises the time spent on this can be a significant proportion of the total time spent on the exercise. Smaller pieces of work will often be based on larger exercises and can rely on documentation prepared for previous work.

## Scope

The mandatory scope of the Insurance TAS generally covers work with a significant public interest – financial reporting, pricing lines of business, business reorganisation, and the exercise of discretion concerning policyholder benefits and charges. Most practitioners consider that this scope is about right for actuarial work in insurance although a minority expressed a strong view that pricing work in general insurance should be out of scope. Two main justifications given for this view are:

- the close relationship between the underwriter and the actuary is constrained by compliance; and

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<sup>1</sup> TAS R C.6.6

<sup>2</sup> Insurance TAS D.1.4

- the methods used extend beyond what might be considered as actuarial work.

There is uncertainty about whether particular types of work are in scope or not. Where there is uncertainty, this is often resolved in discussion with colleagues.

Some practitioners have tightened their terms of engagement to limit the application of the TASs, for example by seeking to put responsibility for data outside the engagement. On the other hand, one consulting firm told us that all the work carried out by its actuaries reflects TAS principles.

We asked practitioners how much of their work they considered to be in scope of the TASs. It was interesting how little work was reported to be in scope; on average between 40% and 50% of the work they performed was regarded as in scope.

### Regulators' views

The PRA has not observed much if any change in the quality of actuarial work although perhaps those that state compliance with TASs are better than those that do not.

The PRA confirm that more information on risk and uncertainty is generally provided although more work might be included on the sensitivity of results to the choice of assumptions.

The PRA reported that some of the actuarial reports it received did not state compliance with TASs. Actuarial work performed to enable an insurer to fulfil its regulatory obligations is within scope of the TASs<sup>3</sup>, and reports are required to confirm compliance.

On the other hand, Lloyd's recently stated that *"It was pleasing to see 99% of reports stating compliance to each of the four TASs"*.<sup>4</sup>

### Implementation of the TASs

Consultancy firms said that they had spent a considerable time preparing for the implementation of the TASs. This included training and reviewing processes. Some firms have developed checklists to aid working with the TASs, while others have chosen to allow their employees to exercise their judgement in how they manage compliance. There appears to have been a similar investment in implementation in actuarial teams working in large insurers.

### Costs

In the consultation on the Insurance TAS we concluded that the ongoing costs of compliance with our TASs in insurance work would not increase significantly or have a material effect on the costs of actuarial work to insurers, their shareholders or policyholders. This conclusion appears to have been borne out in practice with most practitioners saying there is only a very small increase in costs. However, some said they consider that TAS compliance is very onerous. Of users expressing a view, most believe that actuarial costs have increased but the TASs only play a part

in this with other factors such as Solvency II playing the most significant role.

We also anticipated that there would be more substantial costs on implementation principally due to ensuring actuarial models complied with TAS M. There was a substantial investment in thinking through the implications of the TASs on actuarial work and in training. However, many insurers were investing considerable effort in developing actuarial models to support Solvency II at the same time as the TASs came into force. We were told that these regulatory requirements placed a substantially heavier burden on actuaries particularly concerning validation of data and justification and documentation of models than the TAS principles.

### Style and structure of the TASs

In our meetings with stakeholders we asked for views on the style and structure of the TASs. A range of views were expressed. Some practitioners considered that the TASs could be made shorter by consolidating the existing separate TASs to eliminate duplication of common text (such as definitions) in one place. Some commented that clarity could be improved. Others indicated that the cost of considering the implications of a change to the structure and style of the TASs and implementing any changes in requirements might outweigh the benefit of improved clarity.

The provisions on how compliance with some principles might be achieved are considered helpful.

### Reporting

Users generally consider that reporting has improved either through better focus on material matters or the provision of additional useful information.

Some practitioners have general concerns that the reporting burden leads to lengthy reports containing immaterial information. Some suggested that certain requirements were unnecessary. For example many questioned the need to distinguish between valuation and planning work<sup>5</sup>, and general insurance practitioners question the requirement to consider cash flows for short-tail general insurance business<sup>6</sup> and projections of claims reserves<sup>7</sup>.

This supports the suggestion that more help is required on making judgements about what is and is not material.

A number of practitioners believe that TAS R can be onerous for work that is repeated at regular intervals given the requirement to ensure that all the relevant information is provided at the time decisions are taken. The concept of component reports contributing to a compliant aggregate report was partly designed to facilitate this but it may not be fully effective.

### Transformations TAS

Few practitioners had experience of using the Transformations TAS. However, reiterating concerns

<sup>3</sup> Insurance TAS C.1.7

<sup>4</sup> Lloyd's Actuarial Opinions Feedback A review of the 2012 SAO reports – for the Financial Reporting Council

<sup>5</sup> TAS R C.3.7

<sup>6</sup> TAS R C.5.10

<sup>7</sup> TAS R C.5.20

expressed at the consultation stage, most practitioners considered that there was no need for a separate Transformations TAS. They suggested that the principles in that TAS which apply to insurance work would sit better in the Insurance TAS.

The PRA and the FCA expressed concerns about the quality of independent expert reports for insurance business transfers. Some did not meet the requirements of the PRA rules and some failed to address issues of concern to the FCA.

### TAS support

Our published answers to FAQs are considered helpful by practitioners.

Several practitioners suggested that the FRC or the IFoA should provide more support for practitioners with, for example, case studies.

Users welcomed the Questions for Users we issued in 2011 but some suggested that the FRC should do more to communicate key messages.

There are indications that there is a lack of familiarity with TASs among less experienced practitioners; for example some actuaries working in a team and who do not have responsibility for the final report do not consider the need to consider TAS principles. The IFoA should consider developing courses on the application of technical standards in work situations for younger members.

### Your feedback

Does our analysis of the impact of the TASs reflect your experiences? Do you have different views or are there any comments you would like to make. If so, please contact:

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General Insurance	Natasha Regan on 020 7492 2445 or <a href="mailto:n.regan@frc.org.uk">n.regan@frc.org.uk</a>

### Next steps

We have also carried out a review of the FRC's role in actuarial regulation taking account of changes since the Morris review of the actuarial profession. One of our conclusions was that in our planned review of the TASs in 2014 we would develop and seek views on proposals to restructure the TASs so that we have:

- high level principles which are recognised as applicable across all professional actuarial work; and
- more narrowly focused specific standards where there is a need for additional requirements in the public interest beyond the high level principles and the requirements of the IFoA and the statutory regulators.

We also said we and the Institute and Faculty of Actuaries would explore the scope for greater flexibility and coordination in the existing split between technical and ethical standards.

This review will take account of the feedback from the post-implementation reviews of pensions and insurance.

### Working groups

During this consultation process it is important that we receive input from actuaries and stakeholders. We will be setting up working groups to support the consultation and would welcome volunteers. If you would like to be involved please contact Robert Inglis on 020 7492 2356 or [r.inglis@frc.org.uk](mailto:r.inglis@frc.org.uk).

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