

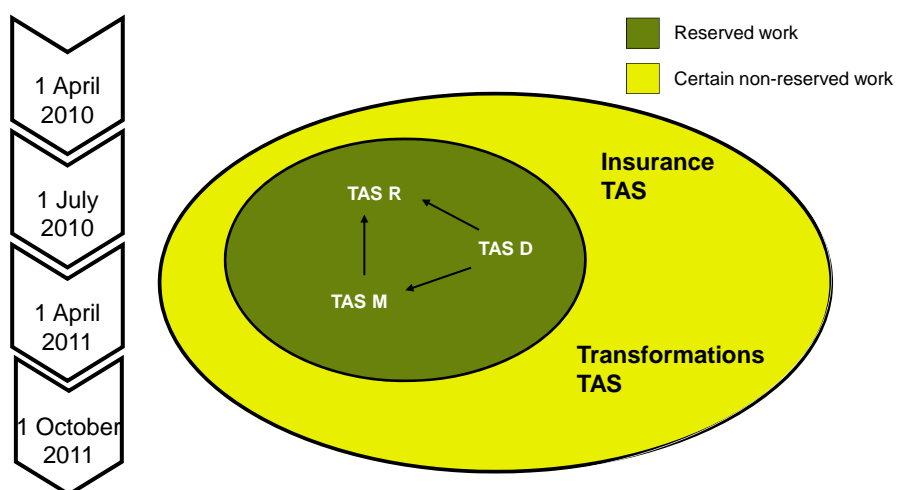
Highlights of the 2010 life conference
Nick Dexter and David Hare

TAS Implementation

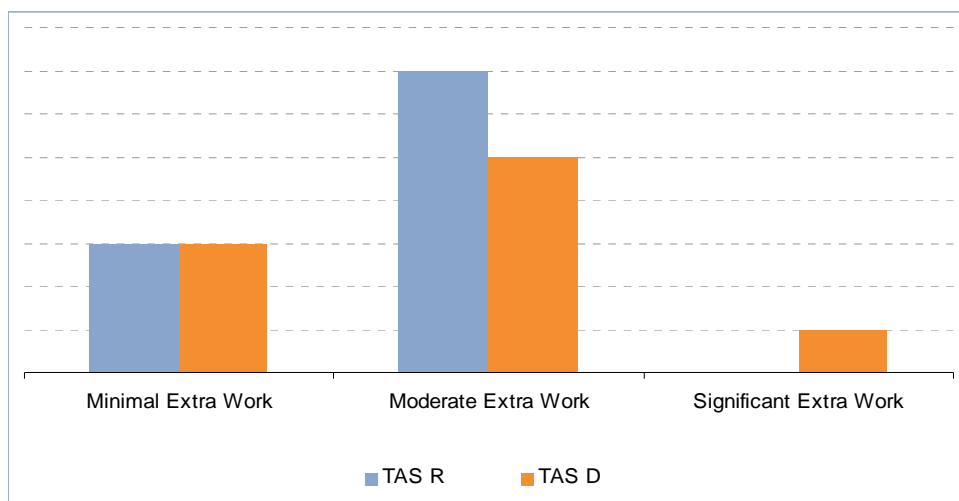
17 February 2011

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The TASs – implementation and scope



Work involved implementing TAS-R and TAS-D



The main challenges of implementing TAS-R

“achieving compliance without significantly increasing the length of report”

“describing the risks and uncertainties in a way that is proportionate to the exercise being undertaken”

“establishing which reports are aggregate reports and which are component reports”

Other Comments:

“The standard of the TAS appears to be set at a level below the expectations of Solvency 2. Therefore they appear pretty irrelevant and superfluous for life business.”

“The overall quality of reporting has improved.”

Material now included in HY valuation report

Companies have now included:

- Additional Sections stating their compliance and explanations of the TAS
- Additional sensitivity runs and projected reserves
- A data policy and a report on the data produced
- More explicit details on assumptions
- A statement of data validation
- Greater clarity around data, validation, workarounds, issues and judgements made when making deliverables
- Additional appendices

The main challenges of implementing TAS-D

“Improving the documentation of the process by which data is obtained and the validation checks carried out”

“considering and documenting all data sources”

“additional workloads every time an actuary receives data”

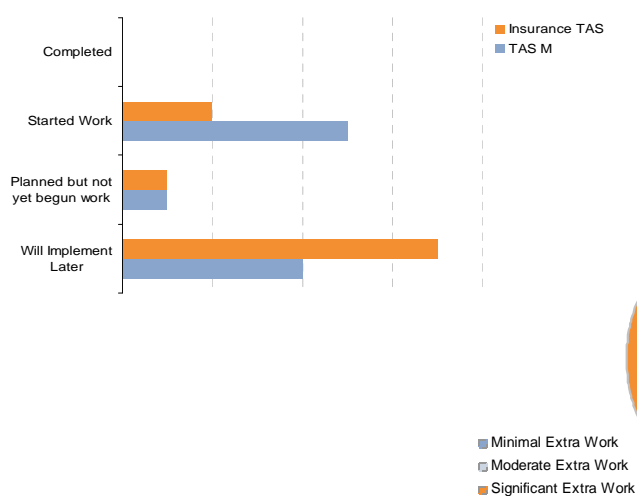
“the need to improve documentation has imposed certain resource challenges”

“understanding the ambiguity in the TAS regarding the level of documentation required”

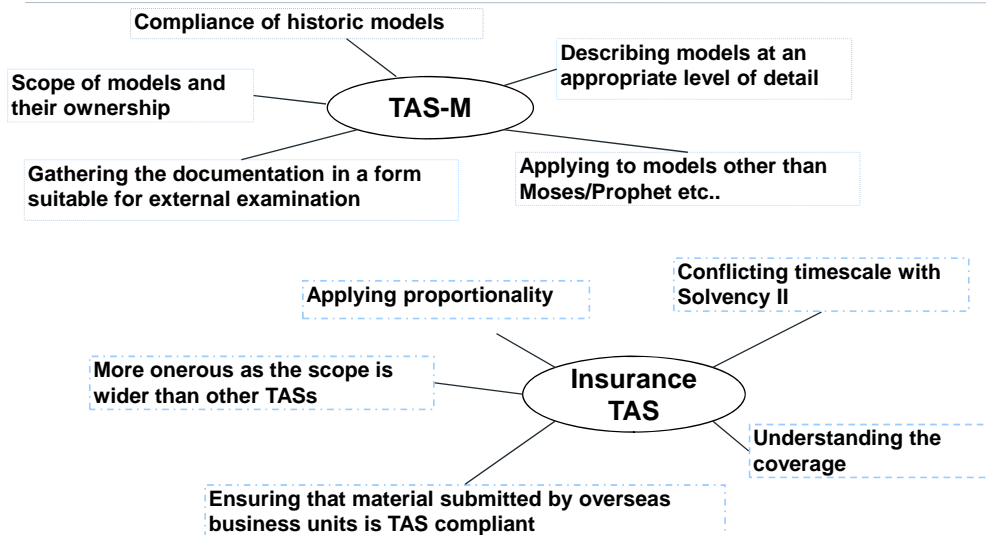
TAS D – link with Solvency II

	TAS D	Solvency II
Overarching principle	<ul style="list-style-type: none"> Show that data used is accurate, appropriate and complete 	<ul style="list-style-type: none"> Data should be accurate, appropriate and complete
Scope	<ul style="list-style-type: none"> Applies to all data used in preparing actuarial information for a report 	<ul style="list-style-type: none"> Part of wider risk management framework and are used for the calculation of technical provision and in internal models
Documentation	<ul style="list-style-type: none"> Specific data documentation required which includes a statement of purpose and is clear and unambiguous 	<ul style="list-style-type: none"> Adequate data required to identify, assess, monitor, manage and report on risk within business Policy on data quality is required
Definition of data	<ul style="list-style-type: none"> A collection of facts or information usually collected from records or as a result of experience or observation 	<ul style="list-style-type: none"> Each company should have a definition of data. Usually it is defined as the information which is directly or indirectly needed for the calculation of the liabilities
Validation	<ul style="list-style-type: none"> Checks are required to determine whether the data is sufficiently accurate, relevant and complete. 	<ul style="list-style-type: none"> Internal process will be in place External audit will include data in scope AFH will review the quality of data for reasonableness and consistency
Data adjustment	<ul style="list-style-type: none"> Adjustments can be made to improve the data reliability when the data is incomplete or materially accurate. Document the action taken 	<ul style="list-style-type: none"> If data deficiencies arise then take immediate remedial action or apply judgment or apply adjustment Document the action taken

Implementing TAS-M and the Insurance TAS



Issues implementing TAS-M and the Insurance TAS

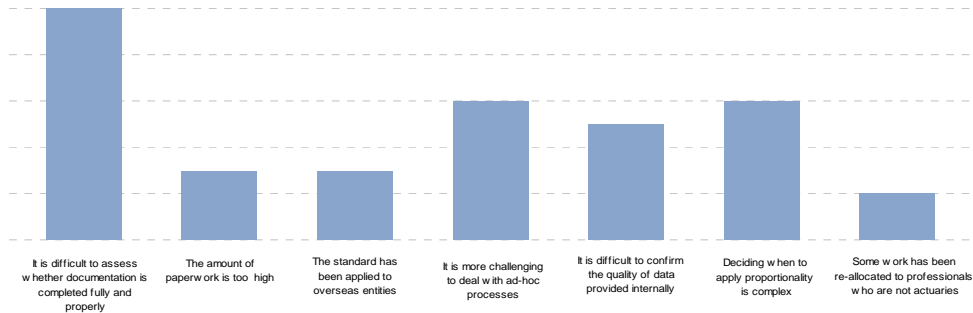


Addressing the challenges

- Create Check lists and templates to aid implementation.
- Develop a Group Actuarial Manual setting out minimum standards.
- Set up project to identify material legacy models.
- Discussion with users to assess their understanding.



When Implementing TASs...

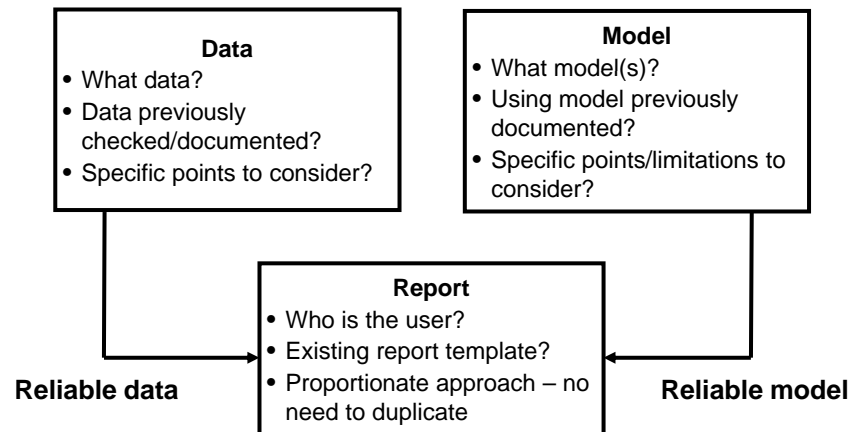


- “We have overseas branches and have needed to ensure they also comply with TASs to the extent that any of their inputs feed into UK financial reporting”
- “At this stage it is difficult to say if work is being re-allocated to professionals who are not actuaries, but discussions are certainly indicating that this may in fact happen in the future.”
- “Actuarial is tasked with ensuring the work complies with TASs. It may be the work of others that fulfil requirements (such as IT systems checks).”

Case study – the problem

- Scenario
 - You are asked a question
 - You know that you will need to run a model to determine the answer
 - You know that you will need to write a report to communicate the answer
 - You might currently expect the report to run to about two pages...

Case study – the process



Case study – conclusions

- Identify key reports – aggregate and component
 - Develop template for key reports
 - Develop process for principal ad-hoc requests
- Identify key models
 - Document models, controls, key assumptions
 - Identify and document shortcomings
 - Document process for determining key assumptions
- Identify key data
 - Agree sign-off processes for data
 - Where external, identify internal checks/responsibilities

Case study – conclusions (cont.)

- Identify key users
 - Familiarise users with key models, assumptions etc.
 - Familiarise users with main TAS requirements and agree approach

Summary

- The majority surveyed do not believe the impact of TASs will be negative for UK Actuaries.
- The InsuranceTAS is believed to present the most difficulties and most work.
- The implementation of TAS-M and TAS-D complements work being done for Solvency II.
- Much of the TASs were already previously being complied with – but may need to formalise documentation.
- There is difficulty ensuring compliance from work carried out overseas by non-UK Actuaries.

Life conference and exhibition 2010
Nick Dexter and David Hare

Case Study

Standard Life experience

7-9 November 2010

Standard Life experience

In a nutshell:

- “Complying with a TAS should not involve disproportionate work; indeed disproportionate work might constitute a departure from the TAS. The TASs have been drafted to facilitate proportionate compliance: the levels of detail of analysis and reporting are usually matters for judgement, having regard to the purpose of the work.” (Q1.2, version 1, October 2010)
- Some of my colleagues have embraced this approach more easily than others!
- Overall it’s been a helpful experience, but the introduction of the Insurance TAS may prove more challenging.

What did we do?

- Flagged to Board in January 2010 AFH responsibilities paper
- Mandatory internal CPD session in Q1 for all actuaries in UK
- Took policy decision to discourage actuaries from claiming TAS compliance except for Reserved Work (or where the user specifically required TAS-R compliant communication)
- Early adoption of TAS-R for end 2009 valuation report “in all material respects”
- Introduction of TAS-compliant AFH solvency monitor memo (to sit alongside the solvency estimates in the monthly MI pack)
- TAS-R compliant ICA presentation in May
- TAS-D compliance built upon existing valuation checks

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What were the main challenges?

Some actuaries “got it” and some didn’t

- e.g. proposed sponsor sign-off for assumption-setting paper:
- “In my opinion,
 - the report is fit for the stated purpose and the intended users;
 - the style, structure and content of the report is suited to the skills and understanding of the users;
 - material information in the reports has not been obscured by information that is not material; and
 - there are no material omissions in the information provided in the report for the intended users and purposes.”

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What were the main challenges?

Some actuaries “got it” and some didn’t

- e.g. proposed AFH sign-off for FCR update to Board:
 - “Until the report is presented I am unable to confirm that it is understood by the users, but I will support the clarification of any points as required or the correction of any misunderstanding, should they arise.
 - Ignoring the above, I can confirm that this report is compliant with the principles and guidance detailed in TAS-R. In support of this:
 - The introduction clearly states the purpose of the paper ...
 - Where given, the source of each figure is clearly stated, apart from the following ...”

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What were the main challenges?

Differing views on what is material

- e.g. description of cashflows for H1 valuation report:
 - “The Actuarial Valuation concentrates on valuing the Company's obligations to its policyholders as they are expected to fall due. In particular the regulatory peak valuation is predominantly a prospective valuation of all future cashflows expected to arise under, or in respect of, its long term insurance contracts. For some business (eg conventional with profits, annuities and some unitised with profits), this involves discounting future cashflows that are projected (often monthly) over the remaining lifetime of the policies. For other business (eg unit-linked and some unitised with profits), it can be sufficient just to take the current unit holding or policy value as the liability. The cashflows for the former could extend out many decades and will allow for both income (eg premiums as they are paid) and outgo (eg claims and expenses). Relevant regulations set out what liabilities should be reserved for and where prudence is required in the reserves.”

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What were the main challenges?

Differing views on what is material

- “It might even be possible to ignore many principles altogether on grounds that the information that has to be provided to comply with those principles is immaterial, but it is inconceivable that every principle of the TAS can be dismissed entirely as requiring immaterial or disproportionate information to be produced if the work overall is material. However, proportionality may mean compliance with the TAS requires relatively little work.”
- Excerpt from Q1.2, version 1, October 2010

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What were the main challenges?

Deciding extent and form of evidence

- Distinction between material included in “aggregate report” and material for the use of the author
- “This standard does not require the **documentation** or disclosure of judgements concerning its application unless stated otherwise.” (Pensions TAS D1.4)
- Extent of documenting judgement process followed – e.g. re material factors to communicate
- Extent of evidencing review of data check documentation
- Extent of documenting checks “further down the line”

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What differences have the TASs made?

Not much change to Board papers (yet)

- Addition of TAS compliance statements
- Addition of some additional explanatory material
- Addition of table of data sources

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What differences have the TASs made?

Changing mindset amongst actuaries

- distinction between Reserved Work and not (e.g. opinion from Risk or from AFH);
- distinction between what is really important to Board decision and what is nice to have (or there for AFH education) - anticipate board papers getting shorter!
- increased emphasis on documenting implicit assumptions and judgements - and hence greater transparency to AFH
- increased emphasis on defining what constitutes materiality
- increased emphasis on the importance of all the supporting work and the responsibility of each member of the team

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What differences have the TASs made?

BAS's Reliability Objective

- The BAS's Reliability Objective is that the users for whom a piece of actuarial information was created should be able to place a high degree of reliance on the information's
 - relevance,
 - transparency of assumptions,
 - completeness and
 - comprehensibility,
- including the communication of any uncertainty inherent in the information.

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Actuarial Quality Framework

POB, updated June 2010

- Methods:
 - Reliability and usefulness of actuarial methods
- Communication:
 - Communication of actuarial information and advice
- Actuaries:
 - Technical skills of actuaries and
 - Ethics and professionalism of actuaries
- Environment:
 - Working environment for actuaries and
 - Other factors outside the control of actuaries

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What's the focus for next 6 months?

Embedding and extending

- Another round of internal CPD sessions on BAS standards
- TAS-M preparations - definition of model, implementation, realisation
- Understanding where S2 will require more documentation and why
- Setting the ground rules for compliance with Insurance TAS
- Ensuring actuarial input is enhanced and encouraged through the impact of BAS standards

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A final quote from a TAS

Pensions TAS B1.3

- “Nothing in this standard should be interpreted as requiring work to be performed that is not proportionate to the scope of the decision or assignment to which it relates and the benefit that **users** would be expected to obtain from the work.
- What work is proportionate is a matter for judgement and might depend on factors such as the expertise of **users** in the matters being reported on and their needs.”

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