



Institute
and Faculty
of Actuaries

B5: Everything you wanted to know about Regulation.. and more...

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The Actuaries' Code

Agenda

- ❖ Proposed changes to the Actuaries' Code
- ❖ APS X1 – the new international standard
- ❖ The new TAS framework
- ❖ Case studies



In the beginning...

- ❖ First substantive review since 2009 when the Code first came into force
- ❖ Substantial changes to the IFoA and actuarial profession since then:
 - More members working internationally
 - More members working in wider fields



The review

❖ What did we look at?

- whether the Code remains fit for purpose in light of experience since 2009;
- whether the Code appropriately reflects the international nature of the IFoA's membership; and
- how the Code interacts and fits with the FRC's revised framework of technical standards.



How did we do it?

- ❖ Information gathering
- ❖ Benchmarking exercises
- ❖ Informal consultation



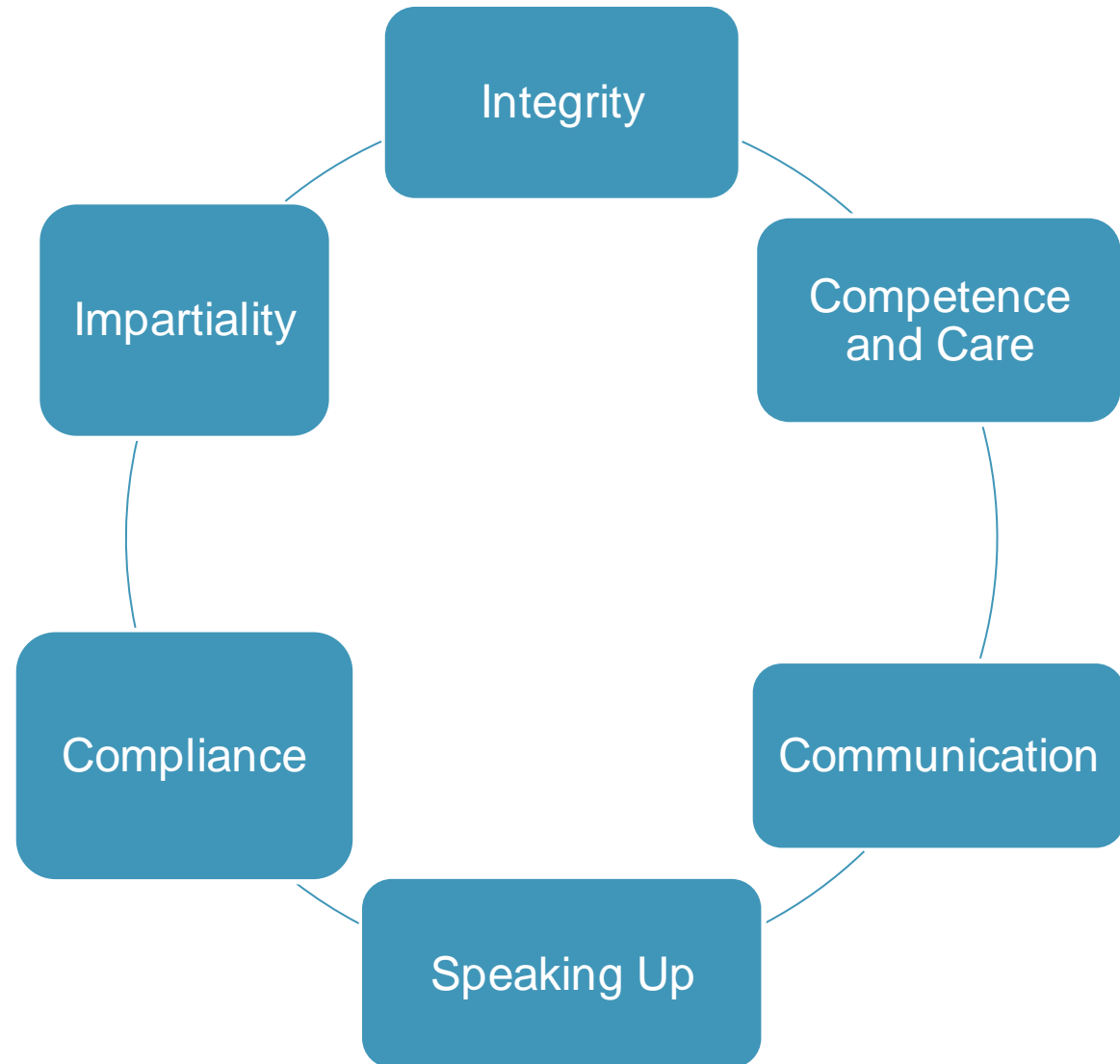
What is being proposed?

- ❖ A clearer structure
- ❖ Simplification of language
- ❖ Supporting Guidance



The Principles

- ❖ 6 high level principles
- ❖ Supported by amplifications
- ❖ New supporting Guide



Next steps

- ❖ Consultation open for responses until 17 January 2018
- ❖ Responses will be summarised in a feedback paper
- ❖ Once agreed, period of transition before proposals come into force.



APS X1 - The International Standard



- ❖ Came into force on 1 July 2017
- ❖ Detailed guide (with case studies)
- ❖ Sets out:
 - how IFoA standards, international standards and the FRC's TASs apply to IFoA members
 - how members carrying out non-UK work should determine which standards to apply
- ❖ Ensures all members are meeting broadly an equivalent set of professional standards while recognising that it may be appropriate for 'local' standards to be applied
- ❖ Ensures there aren't 'gaps' where Members are not required to apply any professional standards at all

The requirements – starting point

All members must comply with:

- the Actuaries' Code; and
- relevant APSs



The requirements

All members must ensure their work is carried out in a way that is substantially consistent with ISAP 1, either:

by

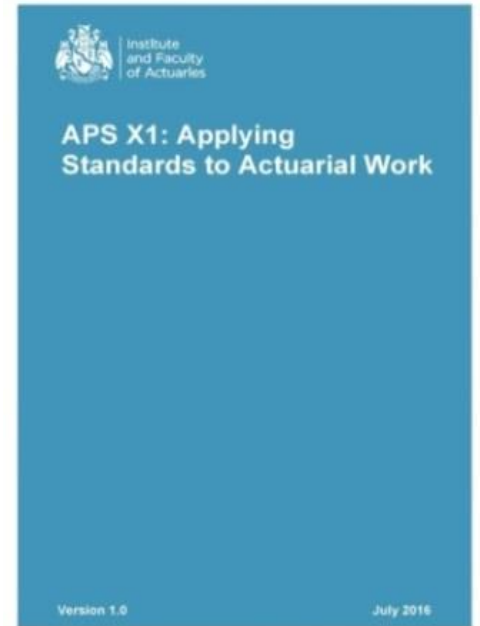
Direct application of ISAP 1

(Many of the requirements in ISAP 1 already covered by the Actuaries' Code plus APS X2 – so will be largely about technical requirements (reporting, assumptions etc.)

or

Applying the FRC's TAS framework

- Applying the standards of a 'Relevant Authority' included in an IFoA published list
- Applying a set of standards reasonably judged to achieve substantial consistency



Definitions

❖ ISAP 1

- Model standard of general actuarial practice issued by the IAA

❖ ‘substantial consistency’

- Not defined
- Should be given its natural meaning
- IAA definition used in some ISAPs: “no material gaps in the standard(s) in respect of the principles set out in [the] ISAP; and the standard or set of standards does not contradict [the] ISAP”

❖ ‘Relevant Authority’

- *An IAA Full Member Association*



UK work only

- ❖ If the work is within 'UK Geographic Scope', members must also apply the TAS framework

- ❖ “UK Geographic Scope”

Work done in relation to the UK operations of entities, as well as to any overseas operations which report into the UK, within the context of UK law or regulation (regardless of the location or domicile of the person carrying out the work)

- ❖ Important - need to think about reporting lines – can be complicated!



Non UK work only

- ❖ If required (by law or by membership of another IAA Member Association) to apply a 'Recognised Standard', there is a presumption that a Member will do so
- ❖ Where there is a local standard applicable in the relevant geographic area - should apply it to the extent 'appropriate and proportionate'
- ❖ May apply all or part of a 'substantively similar' recognised standard as an alternative to an IFoA APS
- ❖ Should exercise reasonable judgement to consider whether there are other relevant standards that they ought to apply



What does this mean in practice?

❖ Practical steps to take

- Have a look at ISAP 1
- Check for local standards and consider whether they are 'Recognised Standards' (i.e. issued by an IAA body or a local standards setter)
- Check whether the body is on the IFoA list or has made a public declaration about 'substantial consistency' with ISAP 1



The new TAS Framework



If it's not right,
don't do it; if it's
not true, don't say
it

What I will cover

What is the role of the FRC?

Overview of the framework, TAS 100 and TAS 200

What is technical actuarial work?

Case studies

Financial Reporting Council



What ?

Promote high quality actuarial practice

and

integrity, competence and transparency of the actuarial profession

Why?

For the benefit of all those who rely on actuarial advice

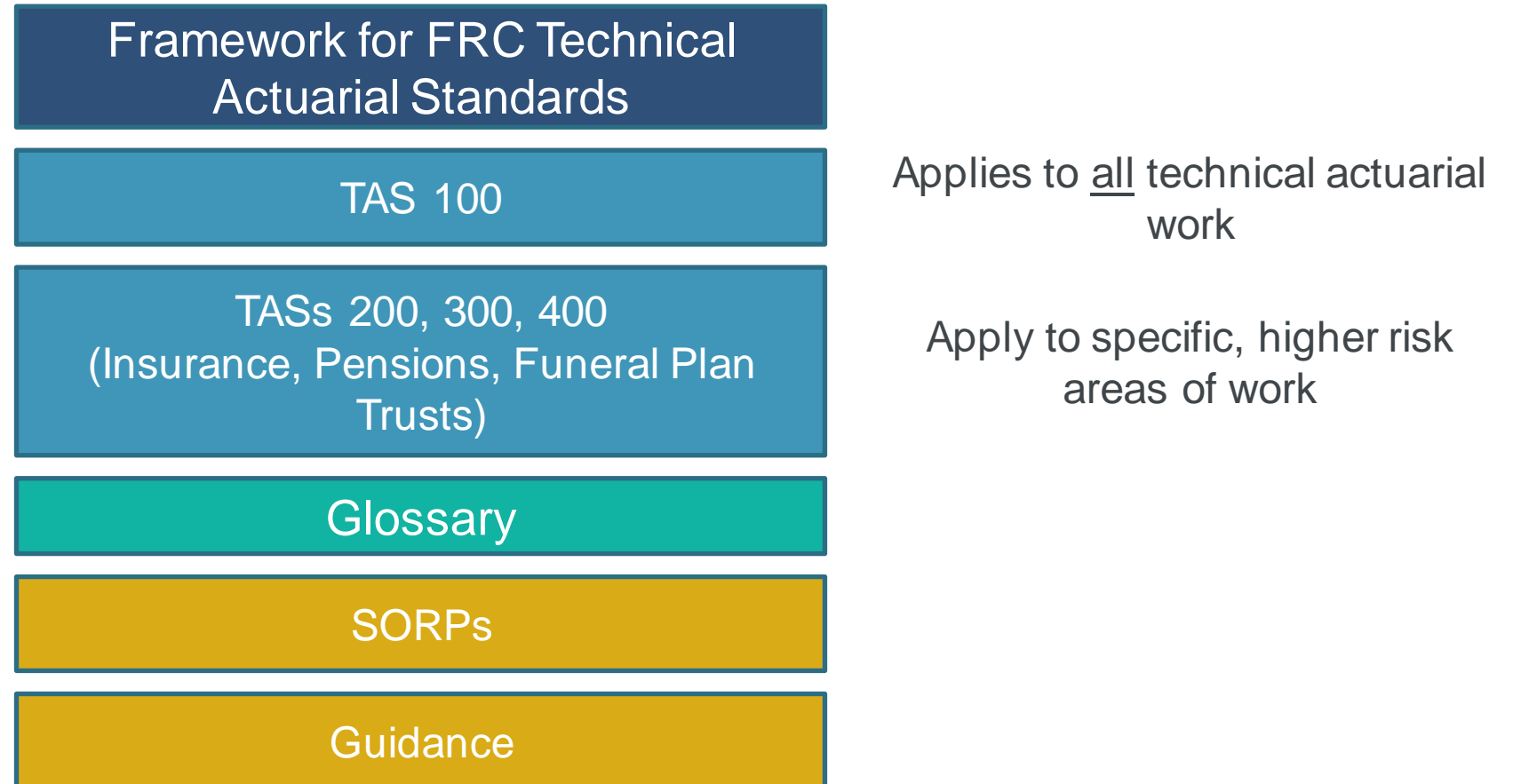
How?

Set technical actuarial standards

Investigation and disciplinary hearings in public interest cases

Oversight of the IFoA

Framework for Technical Actuarial Standards



Users

Users: Those people whose decisions a communication is intended (at the time it is provided) to assist



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Reliability Objective



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Users: Those people whose decisions a communication is intended (at the time it is provided) to assist

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

Geographic Scope



.....work done in relation to the UK operations of entities, as well as to any overseas operations which report into the UK, within the context of UK law or regulation

APS X1 sets out approach for work outside geographic scope

Technical Actuarial Work

1)



user

2a)



actuarial science is central



judgement

2b)

or



Jodie Bloggs FIA

Presentation



TAS100

Six high-level, outcome focused principles



All Technical Actuarial Work

Judgement

Data

Assumptions

Modelling

Communications

Documentation

Application

A digital airport departure board with a black background and yellow text. At the top left is a yellow square logo with a black stylized 'K' and a horizontal line. To the right of the logo, the word 'DEPARTURES' is displayed in large, bold, yellow capital letters. Below this, there is a table with five columns: 'TIME', 'FLIGHT', 'DESTINATION', 'GATE', and 'REMARKS'. The table contains three rows of data, all of which are marked as 'CANCELLED'.

TIME	FLIGHT	DESTINATION	GATE	REMARKS
11:15	UA 411	NEW YORK	A17	CANCELLED
11:20	LH 417	FRANKFURT	A26	CANCELLED
11:30	AF 204	PARIS CDG	C03	CANCELLED

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Only from the Communications provisions
Permitted if they are **unlikely to have a material effect on the decisions of users.**

Application



DEPARTURES											
TIME		FLIGHT		DESTINATION				GATE		REMARKS	
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Nothing in TAS 100 should be interpreted as requiring work to be performed that is not proportionate to the nature, scale and complexity of the decision or assignment to which the work relates and the benefit that users would be expected to obtain from the work.



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Application



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Communications for

- **reserved** work;
- work in the scope of a **Specific TAS**; and
- technical actuarial work which is **central to a significant decision by the user**.

Application



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TAS200 Core Provisions

Judgement

Data

Assumptions

Modelling

Communications

TAS200 – Provisions for Specified work

Valuation exercises

- Regulatory balance sheets and financial statements, Lloyds syndicates and GI tax

Prudential
regulatory capital
and ORSA

Pricing
Frameworks

Insurance
Transformations

Audit and
Assurance

With Profits
Discretion

Case Study – Technical Actuarial Work

You are presenting at a conference on the implications of long term low and negative interest rates. The audience includes a wide range of participants from the insurance industry. Your presentation includes some simple modelled valuation examples under different interest rates.

You also mention the conference to your team at work and share the conference materials with them as they weren't all able to attend the conference.

A few weeks later a member of the Risk Team says they are interested in considering the impact of different interest rate scenarios as part of the stress and scenario analysis and asks you to present your previous modelling work to the Risk Team.

When would TAS 100 apply?

Case Study – Proportionate Response

A senior underwriter has asked you to price a large commercial property contract by the end of the next working day.

The contract has been written for a number of years, so associated issues related to it, in particular the observed increases in incurred claims and reducing rates, are widely known and understood in the underwriting team.

How would you apply the TASs throughout your work?

Standards: Help users make informed decisions



$$\begin{aligned} A_x &= E[Z] = E[v^T] \\ &= \sum_{t=1}^{\infty} v^t Pr[T = t] = \sum_{t=1}^{\infty} \\ &= \sum_{t=1}^{\infty} v^{t+1} Pr[t < G - a] \end{aligned}$$





Questions



Comments

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