The Actuarial Profession
making financial sense of the future

consultation response

Board for Actuarial Standards

Consultation on a Technical Actuarial Standard - Insurance

Comments from the Actuarial Profession

November 2009

The Director
Board for Actuarial Standards
5th Floor, Aldwych House
71-91 The Aldwych
London
WC2B 4HN

26 November 2009

Dear Louise,

BAS Consultation Paper on Technical Actuarial Standard – Insurance

Thank you for providing the Actuarial Profession with the opportunity to comment on this Consultation Paper. We set out below our observations on your proposals. We are happy for this letter to be placed in the public domain.

In this letter we have not attempted to answer the detailed questions posed, in part because of the linkages between them which create difficulties in responding without the danger that important matters will be thereby obscured. We shall write to you separately with our detailed responses to the questions outlined in the TAS document and would welcome the opportunity of a meeting with you at which we could discuss our views.

A further difficulty for us arose from the publication, at a late stage in our deliberations, of TAS D. TAS D incorporated some welcome amendments from the exposure draft which rendered some of our proposed detailed responses inappropriate.

Our more fundamental comments are as follows:

- On the question of whether there should be one or two standards, one for general insurance and one for long-term insurance, we have mixed views particularly as the scope is not finalised. If large parts of the standard will be applicable only to one branch of insurance, then the case for two standards is stronger. However, an alternative approach might be to have one standard with three sections; one covering scope (applicable to both branches) with separate sections for each of the two branches (accepting some duplication of wording). We note that if a separate accounting standard removes embedded values from the insurance standard then the case for a combined insurance standard is strengthened.

- We do not accept, with one exception, that policyholders and potential policyholders are "users" of actuarial reports, which it would be appropriate to include in this standard, in the sense that they should be able to make decisions on the basis of an actuarial report. The one exception relates to the report to policyholders required to be produced by the With-Profits Actuary under FSA rules. Here we are strongly of the view that it is for the FSA, not the BAS, to lay down the format of the report and we do not agree with the suggestion that the report should be extended. If the FSA were to propose to extend the report in this way, we would make representations that the proposal was impractical.

- Subject to the comments made in the preceding bullet point, we are content with the scope as set out in paragraph 4.73 although it may be difficult to set a firm dividing line between asset/liability modelling and general investment advice and the opinion on underwriting/reinsurance policy should only be covered when Solvency II comes into force. We would wish to see embedded value reporting covered in only one specific standard.

- We doubt that it is appropriate to refer to a reserving cycle. There is little evidence that such a cycle is present in claims provisions as recommended by actuaries although there is more evidence of this feature in provisions actually included in financial statements.

- We would suggest that any requirement to separate out "best estimate" liabilities be introduced only when Solvency II comes into force. Prior to that date we would consider this requirement to involve disproportionate work for a limited benefit if liabilities are required to be calculated on a prudent basis.

Points which should be considered in drafting (this list may not be exhaustive) are:

- Any standard on the timeliness of assumptions will need to be consistent with accounting rules on post balance sheet date events.

- The need to illustrate the impact of changes in assumptions should exclude changes related to external events rather than matters requiring judgement. An example of the former might be a change in interest rates.

- We support the need to justify the assessment of any illiquidity premium incorporated in the discount rate. However, in some cases the discount rate is derived by deducting an allowance for defaults. The relevant standard should allow for this and require appropriate justification.

- We assume the need to disclose the impact on liabilities arising from the assumption of material changes in running costs is not intended to require a projection using a zero inflation rate.

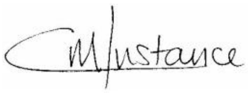
Finally, regarding Chapter 9, we understand that it has been agreed that the transitional arrangements will be considered separately and comments here would be premature. As regards paragraph 9.4, we believe that an issue is ethical if it covers a matter of the way an actuary conducts him or herself. The Actuarial Profession would wish to issue ethical standards itself covering these issues.

It may be necessary for the profession to publish formal papers on matters of technical detail if it transpires that very divergent approaches on important issues are being taken by different actuaries using their own judgement. We would, however suggest that the BAS standards retain the principles-based approach adopted so far.

If you have any questions or would like to discuss any of these matters further, please do not hesitate to contact us as per details below:

Pauline Simpson, Secretary to the Life Practice Executive Committee,
The Actuarial Profession, Napier House, 4 Worcester Street, Oxford OX1 2AW
e-mail: pauline.simpson@actuaries.org.uk
Telephone: 01865 268237

Yours sincerely,



Caroline Instance
Chief Executive