



Institute
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Developments in the Regulatory Framework and Technical Actuarial Standards

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Speakers: Robert Inglis and Natasha Regan

22 October 2015

erise
ponsorship
Thought leadership
Progress
Community
Sessional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support

What we will cover today

- Overview of the FRC
- FRC’s review of TASs
 - TAS 100
 - Specific TASs
 - Timescale
- Case study: GI reserving
 - Joint Forum on Actuarial Regulation (JFAR) reviews
 - Specific TAS principles discussion
- Questions

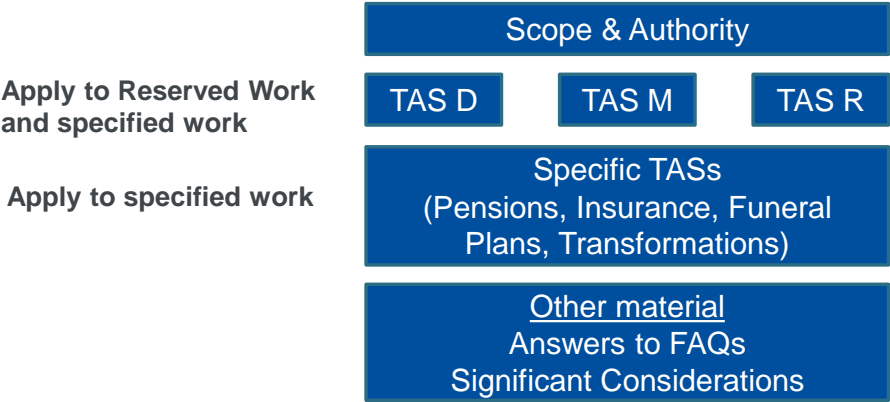


Financial Reporting Council

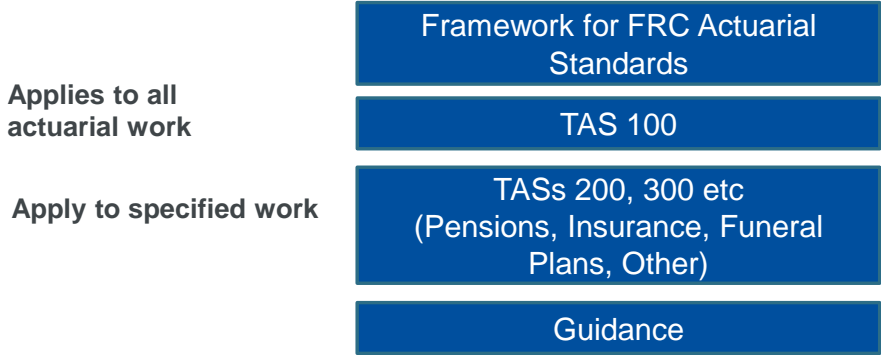
Codes and Standards	Conduct
UK Corporate Governance Code Stewardship Code Accounting standards Audit and assurance standards Technical actuarial standards	Audit quality review Corporate reporting review Discipline Professional oversight



Current Framework



Proposed Framework



Framework for FRC Actuarial Standards

- Replaces Scope & Authority
 - Includes:
 - FRC principles for development of codes, standards and guidance
 - Historical context
 - Reliability Objective
 - Authority
 - Scope and Application
- Overview of FRC actuarial documents



TAS 100

- Six high-level principles with supporting provisions
- Based on Generic TASs and assumptions principles in Specific TASs
- No guidance
- Definitions in separate glossary
- Applies to all actuarial work (as defined in TAS 100)



Scope of TAS 100

Actuarial work is work:

- which involves the exercise of judgement and where the use of principles and/or techniques of actuarial science is central; or
- which the **user** is entitled to treat as actuarial work because it is presented as actuarial, whether expressly or by implication.

Actuarial work is not limited to work undertaken by an actuary.



The Principles

Judgement shall be exercised in a reasoned and justifiable manner; material judgements shall be communicated to users so that they are able to make informed decisions understanding the matters relevant to the actuarial information

Data used in actuarial work shall be sufficient and reliable for the purpose of that work and subject to sufficient scrutiny and checking so that users can rely on the resulting actuarial information



The Principles (2)

Assumptions used, or proposed for use, in actuarial work shall be appropriate for the purpose of that work so that users can rely on the resulting actuarial information

Models used in actuarial work shall be fit for purpose and be subject to sufficient controls and testing so that users can rely on the resulting actuarial information

The Principles (3)

Communications shall be clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information

Documentation shall contain enough detail for a technically competent person with no previous knowledge of the actuarial work to understand the matters involved and assess the judgements made

Other key aspects of TAS 100

Materiality: Each of the principles and provisions in TAS 100 shall be followed unless compliance with it can have no material effect on the decisions of users

Proportionality: 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 risks inherent in the decision or assignment to which the work relates and the benefit that **users** would be expected to obtain from the work



Other key aspects of TAS 100

Aggregation: The requirements of TAS 100 on **communications** apply to the communications in aggregate for a piece of work and not to each individual communication



Specific TASs

- Will review structure and content
- Focused on higher risk areas
- Scope and principles influenced by JFAR, *JFAR: A risk perspective* discussion paper and associated outreach
- Will consult on TASs for insurance, pensions and funeral plans

Feedback to consultation

- Supportive of TAS 100
- Concern about timescale
- Some concern about scope extension
- Detailed comments

Timescale – proposed in consultation

- Consult on Specific TASs and issue review of draft of TAS 100 early 2016
- Issue new TASs in autumn 2016
- New regime fully effective spring 2017

JFAR and case study: GI reserving

Joint Forum on Actuarial Regulation

- Members: FRC, IFoA, PRA, FCA, tPR
- Co-ordinates identification of risks and responses where actuarial work is relevant
- Published '*JFAR: A risk perspective*' (October 2014) and Feedback Statement (July 2015)

www.frc.org.uk/jfar



JFAR: A risk perspective

- | | |
|---------------------------------------|---------------------------------------|
| • Modelling | • Changes in the external environment |
| • Group think | • Competitive pressure on insurers |
| • Understanding risk and return | • Rapid change in pensions market |
| • Product design and distribution | • Economic outlook – pensions |
| • Financial reporting | • Economic outlook – insurers |
| • General insurance claims provisions | |
| • DB pension liability management | |



A risk perspective: feedback

- Valuable exercise
- Support co-ordinated regulation
- Regulation not always best response
- Agreed risks
- Some new risks and hotspots suggested



Joint Forum on Actuarial Regulation: next steps

- JFAR reviews
 - Pensions: DB to DC transfers
 - General insurance claims provisions
 - Group think
- Input to TASs
- Guidance and educational material
- Monitoring and review



GI reserving thematic review - objectives

Three objectives

1. Increase our understanding of the scale of public interest risk and of the quality of actuarial work being undertaken;
2. Test the effectiveness of audit as a control on the quality of actuarial reserving work and the quality of actuarial work in audit;
3. Test the effectiveness of TASs as a control on the quality of actuarial work in reserving



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GI reserving thematic review – scale of risk

- Review of a sample of reserve reports to look for themes;
- Review includes: Treatment of PPOs; use of external research; clarity of conclusions; reporting of risks and uncertainty
- Output: JFAR paper H1 2016



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GI reserving thematic review – audit

- Roundtable discussions with audit partners and actuaries who work in audit;
- Actuarial input into FRC's Audit Quality Review (AQR) work;
- Output: Themes on actuarial work in audit.



GI reserving thematic review – TASs

- View of risks based on risk perspective feedback and a number of brainstorm and roundtable discussions;
- Gap analysis of the risks against TAS principles and other mitigants;
- Output: Suggestions for review of Insurance TAS principles and other coordinated mitigations.



Context – Specific TAS principles discussion

- Deregulatory environment and fatigue with regulatory change
- External regulatory developments:
 - Introduction of new pensions freedoms
 - Solvency II
 - International regulation
- Economic pressures on both insurers and pension schemes
- Risks to the public interest



GI reserving – Specific TAS principles discussion

Theme 1: Tight timescales

- Increased reporting required in shorter timescales
- Increased automation / robust processes required – less time for judgements?
- May be harder to re-evaluate or change models
- Assumptions may not be updated, or possible anchoring to last time's results
- Potential mitigations
 - Testing of actual against expected
 - Guidance (eg- reporting of limitations of the work; sensitivity analysis; consider robustness as a model check)



GI reserving – Specific TAS principles discussion

Theme 2: Management pressures

- Bias in challenge may lead to bias in actuarial judgements (up or down)
- The actuary may not be sufficiently sceptical
- Over-reliance on benchmarks (“Group Think” risk)
- There may be lack of clarity around the role or scope of actuarial work
- Potential mitigations
 - Framework around expert judgements
 - Training on standing up to pressure / managing conflicts



Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

