



The Actuarial Profession

making financial sense of the future

Life Conference and Exhibition 2012

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TAS implementation in the New World – a practical experience

Tuesday 6 November

TAS implementation in the new world – a practical experience

Before we start...

- This presentation reflects our personal thoughts around implementation of the TASs and is designed for discussion
- There is no right answer to the scenarios presented

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Agenda

- What sort of TAS are you?
- Why another TAS talk?
- When to comply?
- Communication/Support and Induction/Training
- Hot topics: ERM and Solvency II
- Next steps

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What sort of TAS are you? – Question 1

- Which of the following best describes the level of work your company has performed on TAS?
 1. It's all common sense
 2. We know what we have to do
 3. We know what we have to do and who to go to if we have any difficulties
 4. We've had to pull people off Solvency II to build a comprehensive and exhaustive TAS framework

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What sort of TAS are you? – Question 2

- One of your reports confirms compliance with the TASs.

What is being confirmed as compliant with the TASs?

1. The statement
2. The report
3. The work, as well as the report
4. The work, the report and all documented conversations in respect of the work

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What sort of TAS are you? – Question 3

- What are you expecting to achieve from this talk?
 1. I want to know what the TASs are
 2. I want to know how the TASs may affect my company
 3. I want to know how other companies have implemented the TASs
 4. I have specific queries around the TASs

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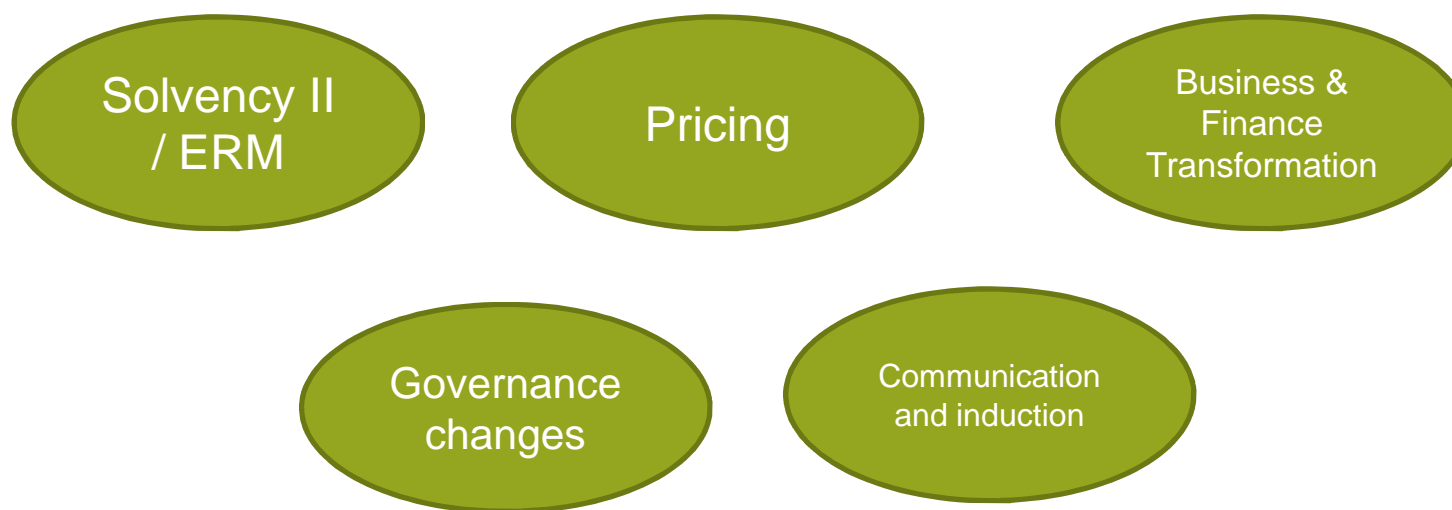
What sort of TAS are you? – Results

- If you chose mostly...
 1. Un-TAS-ted
 2. TAS-k based approach
 3. Gravi-TAS
 4. Multi-TAS-k

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Why another TAS talk?

- Companies will have already adopted their TAS frameworks
- However the world doesn't stand still....



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Why another TAS talk - the myth of common sense?

- Some people may consider the TASs as simply “common sense”
- But how safe is that?
- How well would TAS based disclosures based on “common sense” stand up against a professional negligence claim, for example?

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Why another TAS talk - how could TAS compliance affect Professional Negligence?

- Tests for a professional negligence claim:
 - A duty of care existed from the actuary
 - That duty of care was breached (e.g. an actuary has fallen short of the standards of a reasonably competent actuary)
 - A reasonably foreseeable loss was suffered
 - The loss was caused by the breach of duty of care

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When to comply? – Actuary v Non actuary scenario

- You are working with a accounting team on a report. The accounting manager is responsible (and will present the findings), however you have drafted an actuarial section for the report. What should the accountants be aware of relating to the TASs?
 1. Nothing – they are not actuaries and can rely on the actuaries' work
 2. Nothing – however they would need to understand the actuaries' work sufficiently to present the findings
 3. They would need to be satisfied that the actuarial work complies with the TASs, but not state it in the report
 4. The report would state TAS compliance for the relevant sections.

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When to comply? – Consultancy scenario

- You are working for a consultancy for an overseas client (on behalf of your firm) in respect of a non UK activity. Would your work be TAS compliant?
 1. No – it's an overseas entity.
 2. Voluntary – but if this was a scenario in my organisation I would not
 3. Voluntary – if this was a scenario in my organisation I would
 4. Yes – you work in the UK so need to be TAS compliant

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When to comply? – Group scenario

- A UK company as part of a non UK Group is working on Solvency II. How is actuarial work performed by Head Office in respect of the UK company treated in the UK in respect of the TASs?
 1. As results which can be relied upon
 2. As data which needs to be verified and limitations stated
 3. As a component report (therefore the overseas company needs to be aware of and be guided by the TASs)
 4. As an aggregate report (therefore the overseas company needs to be aware of and be guided by the TASs, and the report states TAS compliance)

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The compliance matrix (TAS scope)

Mandatory (UK actuary, UK firm responsible)	Voluntary (non UK actuary, UK firm responsible)
Voluntary (UK actuary, overseas firm responsible)	Not required (non UK actuary, overseas firm responsible)

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Induction/Training and Communication/Support

- Companies will have provided training to their staff around how they comply with TAS.

However:

- How extensive are these TAS policies?
- What are the arrangements for new staff:
 - New graduates
 - Experienced hires (part or fully qualified)?

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Communication/Support

- How many of the following does your company have:
 - TAS internal policy
 - TAS checklist
 - Interpretation of the TAS wording
 - TAS support group
- If none of these, what do you have?
- Or do you not know?

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Induction/Training

- What arrangements have you made for new staff (new graduates and experienced hires)?
 1. None – they should know the TASs and can learn the company policy from existing staff
 2. Brief description of the TASs and link to the relevant company policy
 3. Brief training with case studies
 4. Full training as per existing staff

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Business Transformation

- When a company makes a change internally, they will need to consider the TAS implications.
- How will your company deal with TAS in respect of their pricing processes, for example,
 - RDR
 - ECJ ruling?
- Which TASs will apply and where?

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ERM requirements

- A typical ERM corporate structure will contain a mixture of actuaries and non actuaries
- This will be most noted in ERM models
- This leads to queries around the level of applicability of the TAS requirements
- The standards talk about when the actuary is *responsible* for the work:

- *If he or she has the authority to determine, or to veto, the content of (the relevant part of) the final work product, whether or not any other individual also has an equivalent authority, or power of veto, over the work.*
- *If working with non-actuaries, TAS compliance is for the relevant pieces of work the Actuary is responsible for.*

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Solvency II

- BAS has said that compliance with TAS should not have more onerous requirements than a well-documented Solvency II process
- However there are concerns around aligning the TASs and the Solvency II requirements, in relation to responsibility and documentation of the following:
 - Article 44 (Risk Management)
 - Article 48 (Actuarial Function)
- TAS focuses more on the implications of actions, whilst Solvency II focuses more on the documentation of actions.

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Next steps

FRC reorganisation

- The UK Financial Reporting Council (FRC) has been reorganised, with its activities now divided between two boards:
 - one responsible for codes and standards (including the Accounting Standards Board and the Auditing Practices Board);
 - the other responsible for conduct.
- BAS does not anticipate any changes to the TASs as a result of this before the review in 2013-14.

FRC review of TAS implementation in practice

- The FRC have published a paper on TAS implementation in practice in May 2012 and concluded that they do not need to change the TASs. BAS are considering feedback on an ongoing basis, however they do not consider any issues urgent enough to be considered before their review of the TASs in 2013-14.

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Useful links

Link to TAS - <http://www.frc.org.uk/Our-Work/Codes-Standards/Actuarial-Policy/Technical-Actuarial-Standards.aspx>

FRC review of compliance in practice (May 2012) - <http://www.frc.org.uk/getattachment/95f82bca-3ab2-4902-8fd4-09185de55801/Review-of-compliance-statement-practice-report.aspx>

Conclusion of review: *“We welcome the suggestions from users and practitioners on how TAS R could be amended to make the compliance statements more useful to users. We will consider this issue as part of our first full review of the TASs.*

We have expressed our view that compliance statements should generally be short and confirm that the work, as well as the report, complies with the relevant TASs; and should not be omitted on grounds of materiality.

However, we do not consider that it is proportionate to consult on a change to TAS R to clarify these points alone. We will consult on how best to remedy this as part of our first full review of the TASs. In the meantime, we would encourage practitioners to confirm that the work, as well as the report, complies with the relevant TASs.”

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Materiality, proportionality and responsibility

Matters are **material**:

- If they could, individually or collectively, influence the decisions to be taken by users of the related actuarial information.
- Assessing materiality is a matter of reasonable judgement which requires consideration of the users and the context in which the work is performed and reported.

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.

An actuary is **responsible** for work:

- If he or she has the authority to determine, or to veto, the content of (the relevant part of) the final work product, whether or not any other individual also has an equivalent authority, or power of veto, over the work.
- If working with non-actuaries, TAS compliance is for the relevant pieces of work the Actuary is responsible for.

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Solvency II - Article 44 (Risk management)

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:335:0001:0155:EN:PDF>

1. Insurance and reinsurance undertakings shall have in place an effective risk-management system comprising strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report, on a continuous basis the risks, at an individual and at an aggregated level, to which they are or could be exposed, and their interdependencies.

That risk-management system shall be effective and well integrated into the organisational structure and in the decision-making processes of the insurance or reinsurance undertaking with proper consideration of the persons who effectively run the undertaking or have other key functions.

2. The risk-management system shall cover the risks to be included in the calculation of the Solvency Capital Requirement as set out in Article 101(4) as well as the risks which are not or not fully included in the calculation thereof.

The risk-management system shall cover at least the following areas:

- (a) underwriting and reserving;
- (b) asset–liability management;
- (c) investment, in particular derivatives and similar commitments;
- (d) liquidity and concentration risk management;
- (e) operational risk management;
- (f) reinsurance and other risk-mitigation techniques.

The written policy on risk management referred to in Article 41(3) shall comprise policies relating to points (a) to (f) of the second subparagraph of this paragraph.

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Solvency II - Article 44 (Risk management - continued)

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:335:0001:0155:EN:PDF>

3. As regards investment risk, insurance and reinsurance undertakings shall demonstrate that they comply with Chapter VI, Section 6.4.
4. Insurance and reinsurance undertakings shall provide for a risk-management function which shall be structured in such a way as to facilitate the implementation of the risk-management system.
5. For insurance and reinsurance undertakings using a partial or full internal model approved in accordance with Articles 112 and 113 the risk-management function shall cover the following additional tasks:
 - (a) to design and implement the internal model;
 - (b) to test and validate the internal model;
 - (c) to document the internal model and any subsequent changes made to it;
 - (d) to analyse the performance of the internal model and to produce summary reports thereof;
 - (e) to inform the administrative, management or supervisory body about the performance of the internal model, suggesting areas needing improvement, and up-dating that body on the status of efforts to improve previously identified weaknesses.

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Solvency II - Article 48 (Actuarial function)

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:335:0001:0155:EN:PDF>

1. Insurance and reinsurance undertakings shall provide for an effective actuarial function to:
 - (a) coordinate the calculation of technical provisions;
 - (b) ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
 - (c) assess the sufficiency and quality of the data used in the calculation of technical provisions;
 - (d) compare best estimates against experience;
 - (e) inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
 - (f) oversee the calculation of technical provisions in the cases set out in Article 82;
 - (g) express an opinion on the overall underwriting policy;
 - (h) express an opinion on the adequacy of reinsurance arrangements; and
 - (i) contribute to the effective implementation of the risk-management system referred to in Article 44, in particular with respect to the risk modelling underlying the calculation of the capital requirements set out in Chapter VI, Sections 4 and 5, and to the assessment referred to in Article 45.
2. The actuarial function shall be carried out by persons who have knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the business of the insurance or reinsurance undertaking, and who are able to demonstrate their relevant experience with applicable professional and other standards

Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

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

