

The Actuarial Profession
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TAS awareness seminars

General Insurance

21 June 2010

Agenda

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Agenda

Some examples / Your agenda / 3 key takeaways

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Scope – UK plus ?

- The geographic scope of TASs is ... limited to work done in relation to the UK operations of entities and **any overseas operations which report into the UK within the context of UK legislation or regulation.**
- This definition of scope applies **regardless of the location or domicile** of the person carrying out the work.
- Strictly speaking though, the standards only apply to the **members of the UK actuarial profession**, although wider adoption is encouraged

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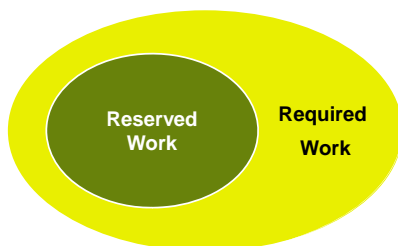
Spirit and Objective of the TASs

- The TASs are driven by the "Reliability Objective":
- "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"
 - *Scope & Authority, paragraph 8*
- "The TASs are intended to assist in the achievement of the Reliability Objective. In applying TASs, it is important to be guided by the spirit and reasoning behind them, as well as following any detailed rules."
 - *Scope & Authority, paragraph 20*

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Reserved and Required Work



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Insurance TAS – Applicability

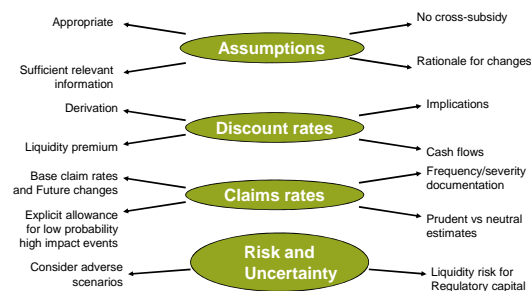
- Reserved Work
- Actuarial work (undefined term!) performed in connection with:
 - Financial statements (true and fair)
 - Obligations to regulators and tax authorities
 - Underwriting/Reinsurance opinion (Solvency II)
 - Auditors' work on regulatory returns
 - Pricing of insurance products
 - Financial projections used in business planning
 - Management information
 - M&A, Part VII, Commutation, Capital raising
 - RITC

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Insurance TAS – Coverage

• Insurance TAS covers principles for setting and using assumptions, using models and specific reporting issues



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TAS R – Coverage

Relevance

- Sufficient information
- State:
 - Purpose
 - Who commissioned
 - Who addressed to

Transparent

- Data / information used
- Source of data
- Any inaccuracies, uncertainties
- Rationale behind assumptions / methods

TAS R deals with the interface between the Actuary and the user of the information

Complete

- All material matters
- Nature / extent / significance of uncertainties, risk
- Nature / objective / method for material calculations
- Timing / Quantification of future cashflows
- Meaning of statistics and probabilities
- Changes to the report

Comprehensible

- Report tailored to user – style, structure, content
- Clarification post-issue
- Exclude non-material info if it clouds meaning
- Explain what results represent
- Should include descriptions of terms such as "best estimate", "prudent" etc.

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TAS R – Key points

- Concept of component reports and aggregate reports introduced
 - Where there may be several preliminary reports which are combined into a final report, only the aggregate report must be compliant with the TASs
- Reports should consider users' needs and should be understandable to users
- Descriptions of terms such as "best estimate" and "prudent" should be included in reports
- Care must be taken not to obscure material information by including immaterial information which reduces clarity
 - Judgement must be exercised as to what is and isn't material
- An indication must be provided about the uncertainty in the report
- Nature / significance of risks should be described
- An indication of cashflows should be included
- Report to be submitted before decisions are made by users

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TAS D – Key points

- Application
 - All data used in preparing actuarial information presented in a report
- Judgement
 - Reasoned and justifiable
- Reporting – from TAS R:
 - Describe data; state source; describe any inaccuracy/uncertainty and how handled
- Documentation
 - So a technically competent person with no previous knowledge to understand matters involved and assess judgements made
- Data
 - Assess suitability/completeness of data
 - Document definitions of all items of data
 - Construct, perform and document set of checks (not audit) to judge extent to which, overall, data are sufficiently accurate, relevant and complete.
 - If data materially incomplete or inadequate, assess whether improvable. Document treatment/action.

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TAS D – Key points

- Existing documentation or checks that have already been performed and documented can contribute to compliance
- Generally this will mean improving the documentation of existing checks
- Data used in reports on reserved work after 1st July 2010 will have to comply with TAS D
- However, wider scope will follow after the implementation of the Insurance TAS in April 2011
- It is important to document the purpose and limitation of the report
- Level of detail required in documentation and reporting is a matter of judgement

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TAS D – Link with SII

	TAS D	Solvency II
Overarching principle	• Show that data used is accurate, appropriate and complete	• Data should be accurate, appropriate and complete
Scope	• Applies to all data used in preparing actuarial information for a report	• Part of wider risk management framework and are used for the calculation of technical provision and in internal models
Documentation	• Specific data documentation required which includes a statement of purpose and is clear and unambiguous	• Adequate data required to identify, assess, monitor, manage and report on risk within business • Policy on data quality is required
Definition of data	• A collection of facts or information usually collected from records or as a result of experience or observation	• 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	• Checks are required to determine whether the data is sufficiently accurate, relevant and complete.	• 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	• Adjustments can be made to improve the data reliability when the data is incomplete or materially inaccurate. • Document the action taken.	• If data deficiencies arise then take immediate remedial action or apply judgment or apply adjustment • Document the action taken.

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TAS M – Key points

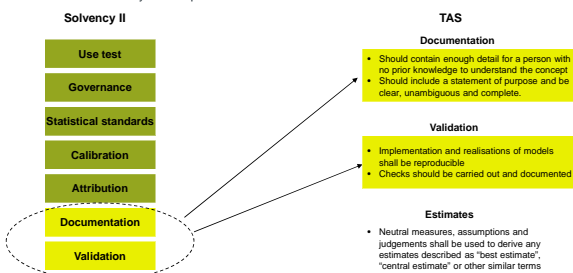
- TAS M will apply to models used in the preparation of aggregate reports completed on or after 1 April 2011
- TAS M will apply to models in existence before that date in so far as their results are used in reports after 1 April 2011
- If data ideally suited to the model is not available, alternative data can be used
- Where a number of data points are removed it is not necessary to document each point individually
- Externally produced models and documentation are within the scope of TAS M
- Existing complex model that can be justified can be used
- Users must be made aware of the limitations of models and the results derived from them

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TAS M – link with SII

- TAS M is narrower in scope and specifically relates to the use of models as tools for calculation purposes rather than the wider definition of models used in SII.
- TAS M and Solvency II overlap around documentation and model validation.



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- Introduce TASs
 - Scope & Authority
 - Insurance TAS
 - TAS R
 - TAS D
 - TAS M
- Some examples
- Your agenda
- 3 key takeaways

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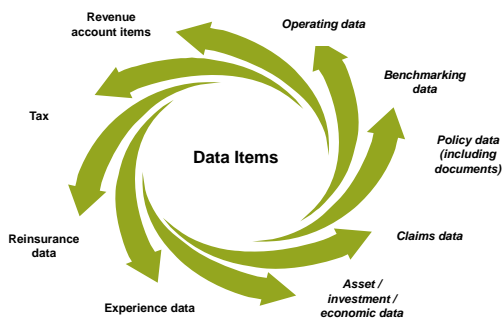
Example – Insurance TAS – Pricing

- There is considerable angst among GI London market pricing actuaries that the burden of compliance with TAS-I would be too high, notwithstanding the principle of proportionality, and would make UK actuaries less competitive than non-UK actuaries or non-actuaries.
- This feeling is not new: most respondents to the initial draft had been against including pricing, product design and business planning work within TAS-I but that BAS rejected their arguments.
- It was thought that if TAS-I is not changed, then many companies would avail themselves of the opt-out clause (Scope and Authority 24(c)(ii)) for work that is neither Reserved nor Required and require their actuaries not to comply with TAS-I. The view was expressed that it would be a nonsense if the majority of employers used the opt out clause. It would be better to try and make the TAS workable rather than opt out.
- The 'nuclear' option of withdrawal from the profession was also discussed.
- Many pricing actuaries have entertained the idea of leaving the Institute. Again it was felt better to try and make the TAS workable.
- The meeting concluded with a decision to draft a wording distinguishing between operational/transactional issues and governance issues (e.g. between transactional pricing and the introduction of a group wide model) that members of the group would be invited to sign.

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Example – TAS D – data items to think about...



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Considerations

- Is the Scope too extreme? Although these should apply to UK actuaries only, the scope is not clear
- How much will your peer-group actions influence or require changes in what you are doing?
- How is non-compliance with the TASs policed?
- Are the deadlines reasonable?
 - How much additional work does compliance require?
- Does TAS R apply to joint reports / component reports?
 - Eg, reports produced by the CFO / accountants but with some actuarial input.
 - How far down the chain is it necessary to go?

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Summary

- While there are set dates for the implementation of the TASs, consideration should be given to introducing them as soon as possible as data, practices and models existing before the deadlines may well impact practices after
- TAS R is one of the key TASs as it not only impacts the work done by actuaries but also the understanding and use of it by the outside world
- There is significant overlap in TAS D and TAS M and requirements for Internal Models in Solvency II
- Some of these regulatory requirements of Solvency II are precise and process based, which, while not required by the TASs, should not be inconsistent
- The intention of the TASs is not to require significant additional work but to formalise and standardise practice

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