

## Implications of the TASs for insurance actuaries



### **A1: Financial Reporting**

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### **A2: Pricing, business reorganisations and the exercise of discretion**

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## 1. Introduction

- TASs are a step forward in compliance linking with existing and emerging regulation:
  - FSA
  - Solvency II
- Avoid being a tick-box exercise
- Principle of proportionality & materiality
- TASs are a minimum requirement

## 1. Introduction (cont)

The BAS's Reliability Objective is that 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.

## 1. Introduction (cont)

Structure of this workshop:

- 60 minutes to discuss case studies
- 20 minutes to identify main issues
- The top 10 issues identified to be shared with across the two breakout sessions

Output

- Key issues
- Key approaches
- Key risks

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## 2. Topical issues

1. To avoid having TASs becoming a tick-box exercise
2. Consolidation of data & models from overseas / other disciplines
3. Applicability of TASs to the profession
4. Definition of materiality and proportionality
5. Assigning the responsibility and accountability to comply with TASs
6. Non actuarial user understanding the implications
7. Component v aggregate

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## 2. Topical issues (cont'd)

- 8. Applicability of TASs in areas where actuaries are under pressure to change models quickly or at short notice (e.g. pricing)
- 9. How to ensure consistency with Solvency II and other regulations (e.g. non EU)

## 2. Topical issues (cont'd)

- 9. Corporate governance
- 10. Prudent work vs. neutral work: do we need to do our work twice?
- 12. Whether it is acceptable to use margins elsewhere to compensate for lack of prudence in other assumptions?
- 13. Cash flows, related time periods and discounting

### 3. Case studies

- Case study 1: Model & process modifications
- Case study 2: Assumptions – Longevity (a), Market risk (b)
- Case study 3: Groups & Multinationals
- Case study 4: Strategy

### 3. Case study 1: Model & process modifications

- Issue: The judgement of the Test-Achats case – whether insurance companies can charge a different price based on gender
- What issues are there in complying with TAS and how do you overcome them?
- Consider all TASs:
  - TAS-D
  - TAS-M
  - TAS-R
  - TAS-I

### 3. Case study 2 (a): Longevity assumptions

- Publication of the latest CMI table for future mortality improvement in 2009 triggers a change in assumptions.
- What issues are there in complying with TAS and how do you overcome them?
- Think about how changing longevity assumptions has wider affects, e.g. business strategy, model governance, back testing of assumptions etc.

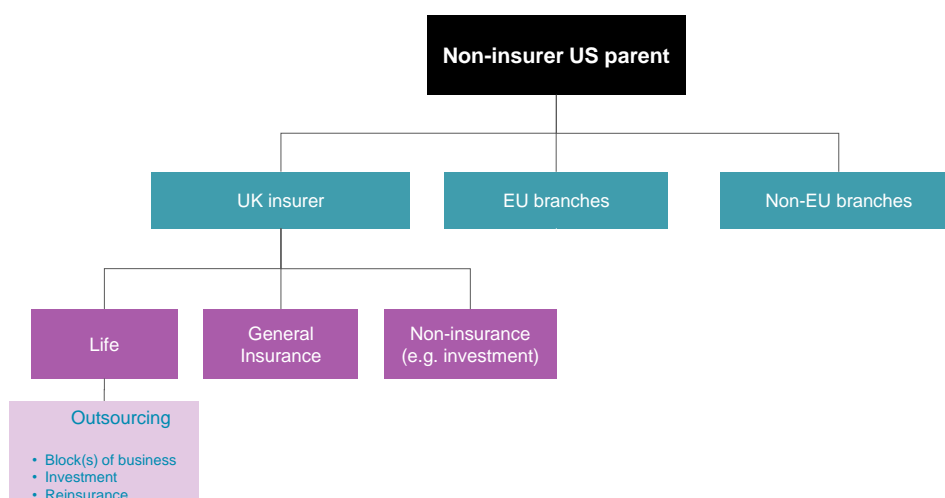
### 3. Case study 2 (b): Market risk

- A special case: Spain downgraded triggers a review of Market Risk assumptions.
- What issues are there in complying with TAS and how do you overcome them?
- Consider:
  - Impact on pricing
  - ESGs impact – setting calibrations
  - Market risks:
    - Interest rate risk
    - Credit default risk
    - Liquidity risk
    - Spread risk

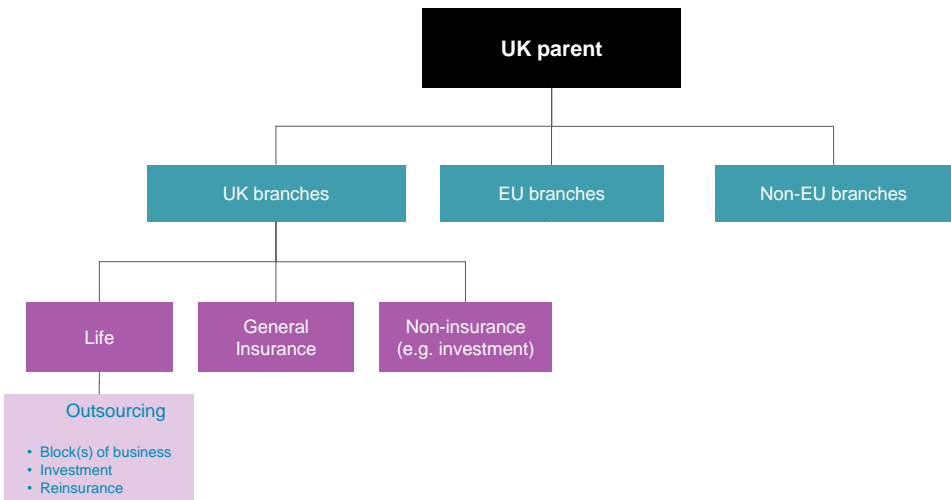
### 3. Case study 3: Groups / Multinationals

- How to ensure TASs compliance across structures that cover various functions / departments?
- There are potentially lots of strands:
  - Life and general insurance actuaries affected
  - Papers / models prepared by trainees
  - Papers / models prepared by non actuaries

### 3. Case study 3: Groups / Multinationals (cont'd)



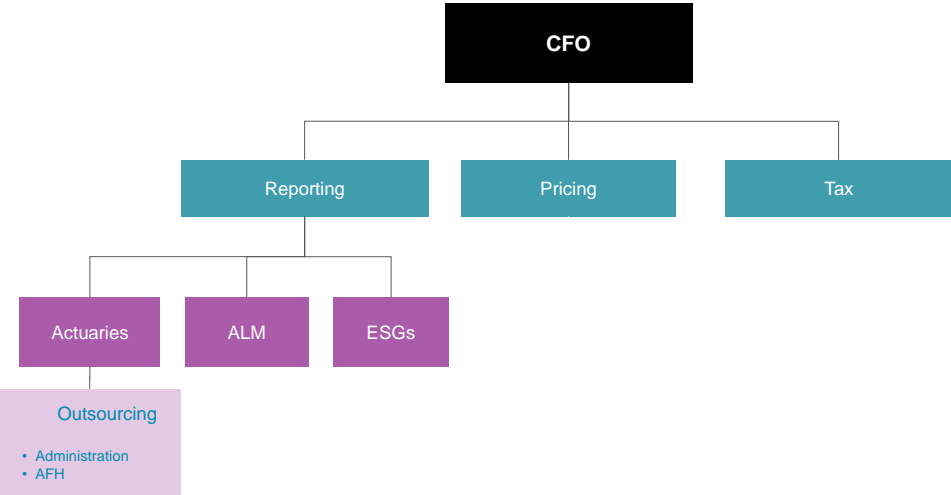
### 3. Case study 3: Groups / Multinationals (cont'd)



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### 3. Case study 3: Groups / Multinationals (cont'd)



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### 3. Case study 4: Strategy

- Introduction of Auto Enrolment in 2012 will affect your back book of Corporate Pension schemes. You have been asked to review the business strategy in light of this change.
- What issues are there in complying with TAS and how do you overcome them?
- Consider:
  - Assumptions you have to make
  - Modelling
  - Communicating the impact and strategy

### 4. Concluding remarks

#### TAS compliance in practice

- The Insurance TAS is believed to present the most difficulties and most work, because of the number of actuaries impacted and that it brings in the other generic TAS's behind it
- The implementation of TAS-M and TAS-D complements work being done for Solvency II so this explains need to be taken into account
- Much of the TASs were already previously being complied with – but may need to formalise documentation

#### Benefits of being TASs compliant:

- Solvency II
- Data and information flow
- Audit trail & documentation
- Facilitates stakeholders management
- Facilitates actuarial related processes – pricing, financial reporting, MI
- Reduction in key man dependencies

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## Questions or comments?

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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 presenter.

